Tax Changes Accompanied By Tough Spending Cuts

Do not forget that these changes in the tax code are accompanied by tough spending cuts and benefit reductions. Over the next five years, the legislation is expected to reduce the federal deficit $496 billion--$250 billion from federal taxes, and $246 billion from spending cuts, almost exactly a 50/50 balance. Tough specific cuts include:

* $13.2 billion in pay reductions for federal employees;

* $24.2 billion from eliminating 149,000 federal jobs;

* $9.6 billion from controlling pension and retirement costs for federal retirees;

* Caps on Medicare payments going to doctors, hospitals, and laboratories;

* $4.3 billion in savings by instituting a more effective direct student loan program, getting banks and middlemen out of the student loan business;

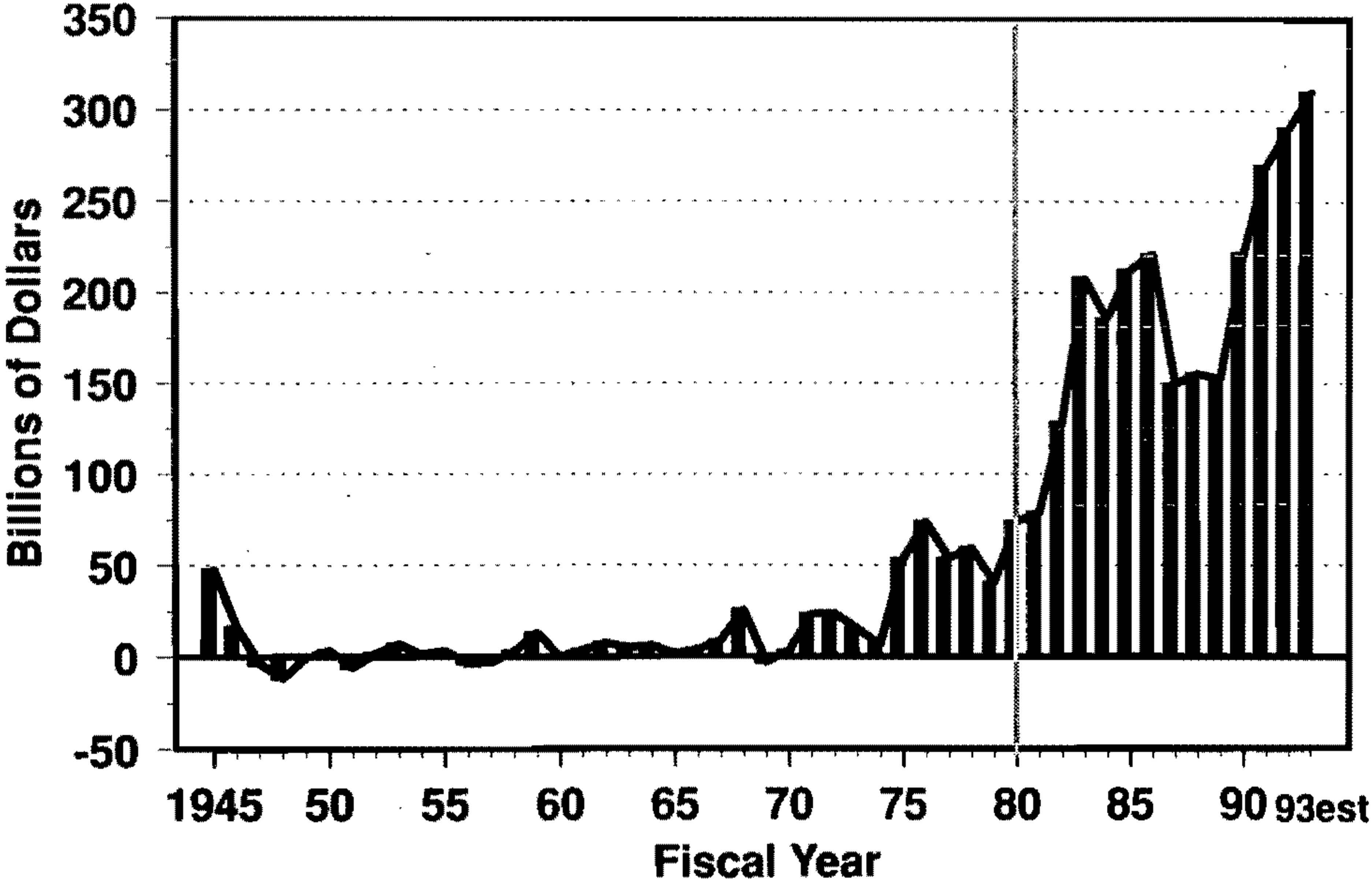
* $1.6 billion from cutting federal housing payments to ineligible families;

* and many more.

These are the facts. America has suffered through 12 years of skyrocketing deficits, while incomes soared for the wealthiest Americans and sagged for almost everyone else. Now many of those in Washington responsible for the policies of the 1980s that gave America the huge increase in deficit spending and the huge increase in income inequality are trying to bring down the one chance this country has for economic recovery and long-term fiscal responsibility.

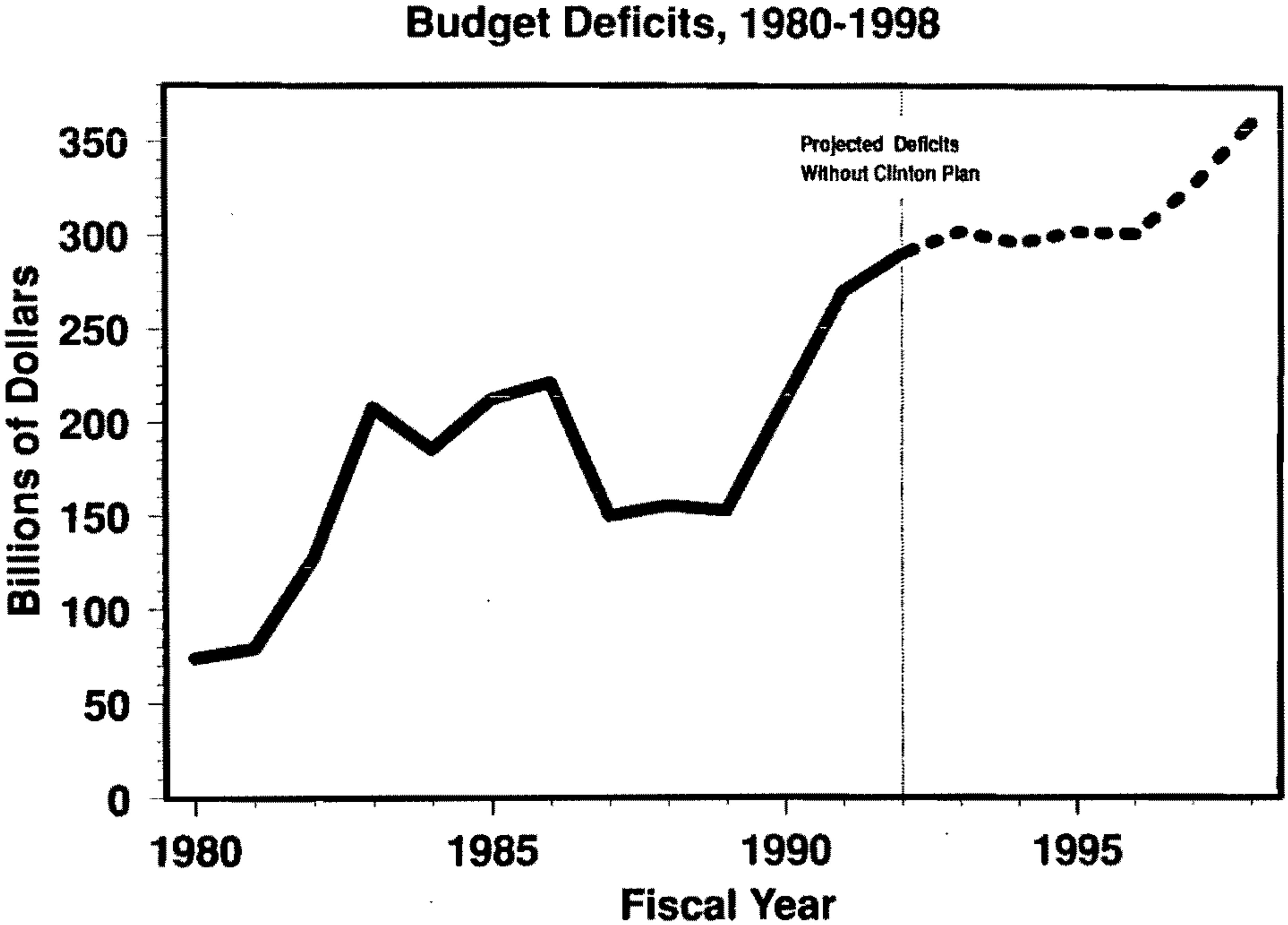
There is an old adage--fool me once, shame on you; fool me twice, shame on me. The President's critics have failed the country three times with their deficit reduction promises and their ideological economic dogma. Do they really deserve another chance? Isn't it time to break with them and the failed past that they represent? These charts demonstrate that it is.

Budget Deficits
Fiscal Years 1945 to 1993



Source: Office of Management & Budget; Congressional Budget Office

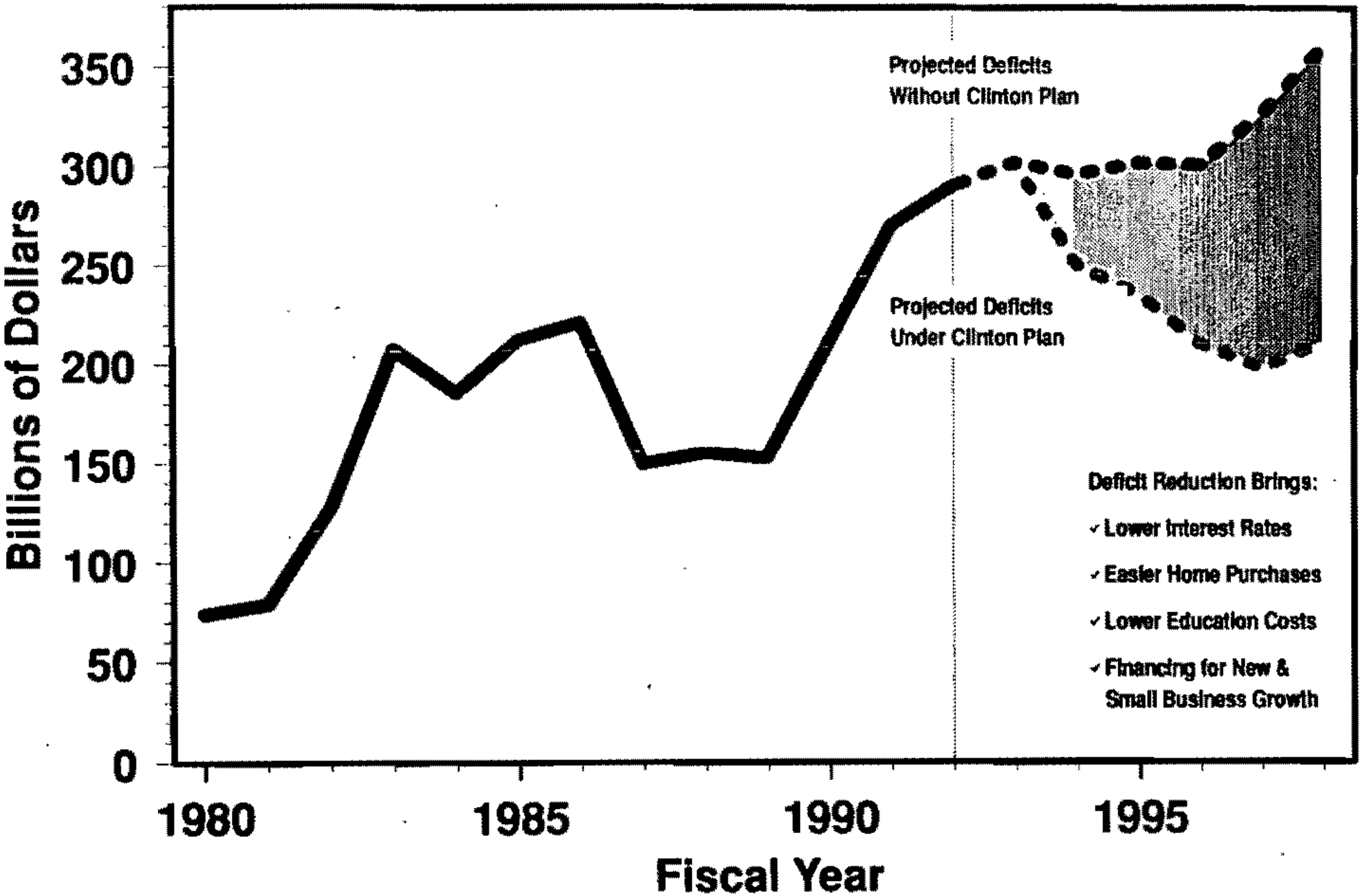
Inherited Deficit Projections



Source: CBO

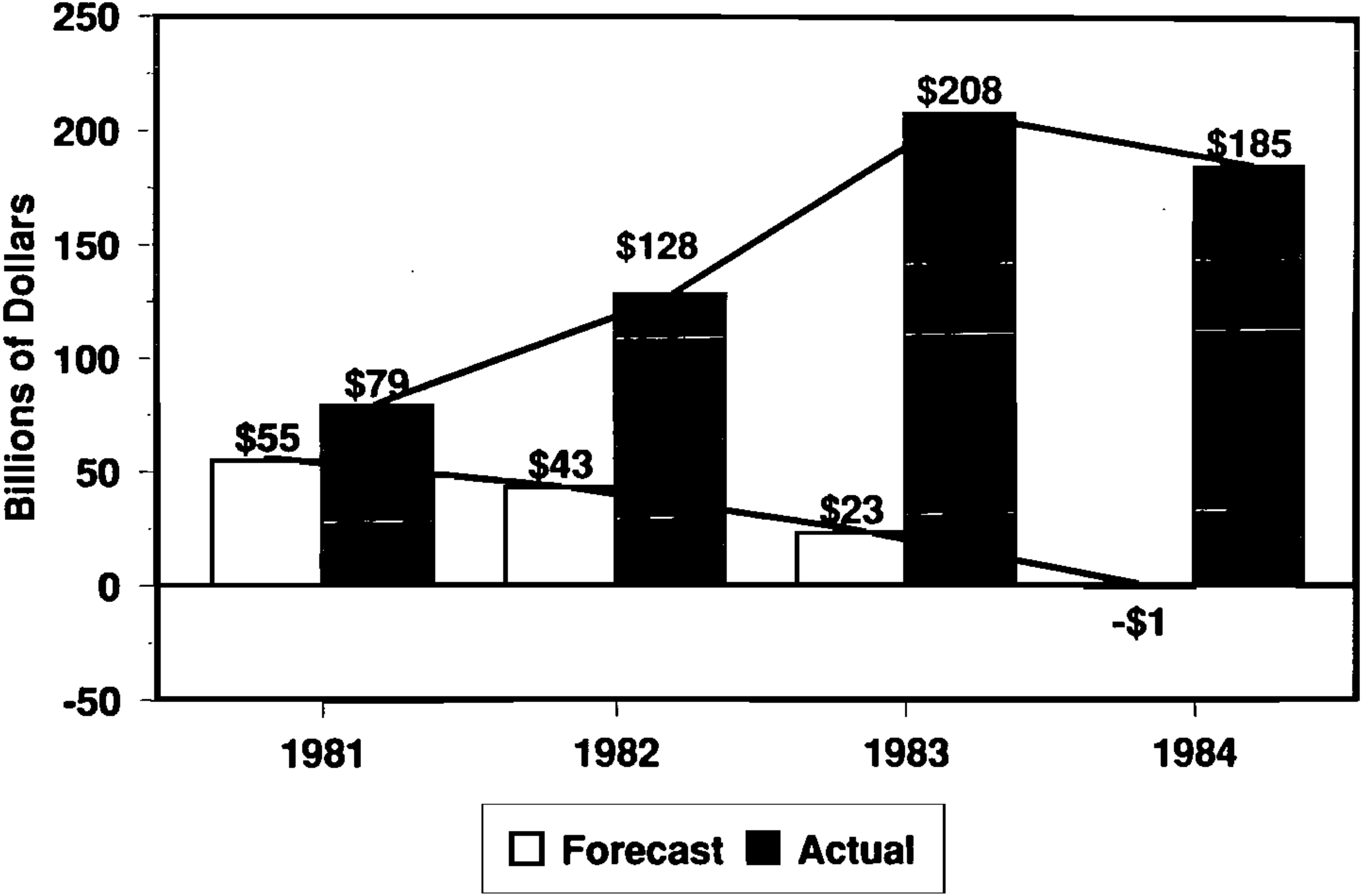
A New Direction

Budget Deficits 1980-1998



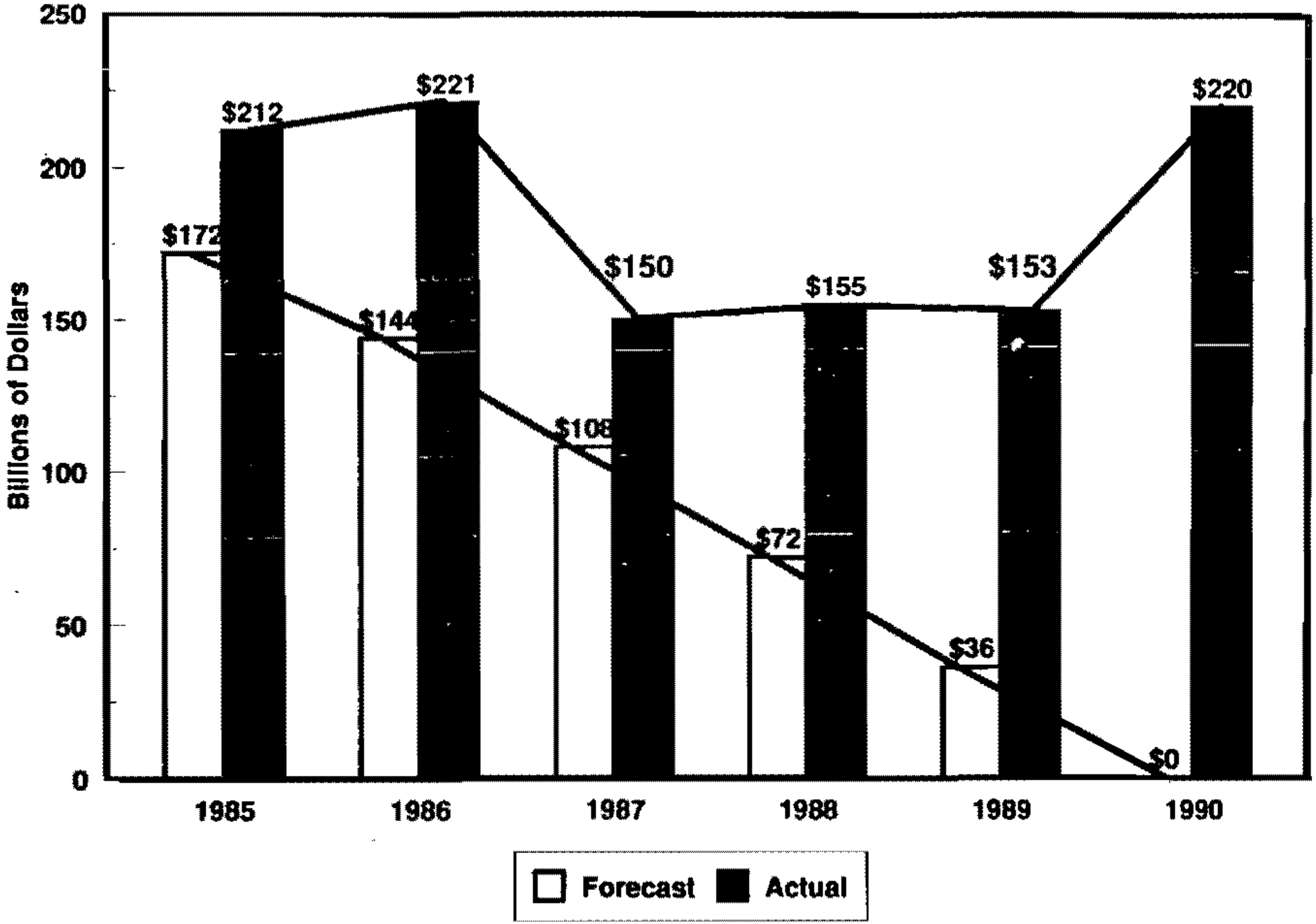
Source: CBO; House Budget Committee

Reagan Administration Promises vs. Performance on Deficits, Fiscal Years 1981-1984



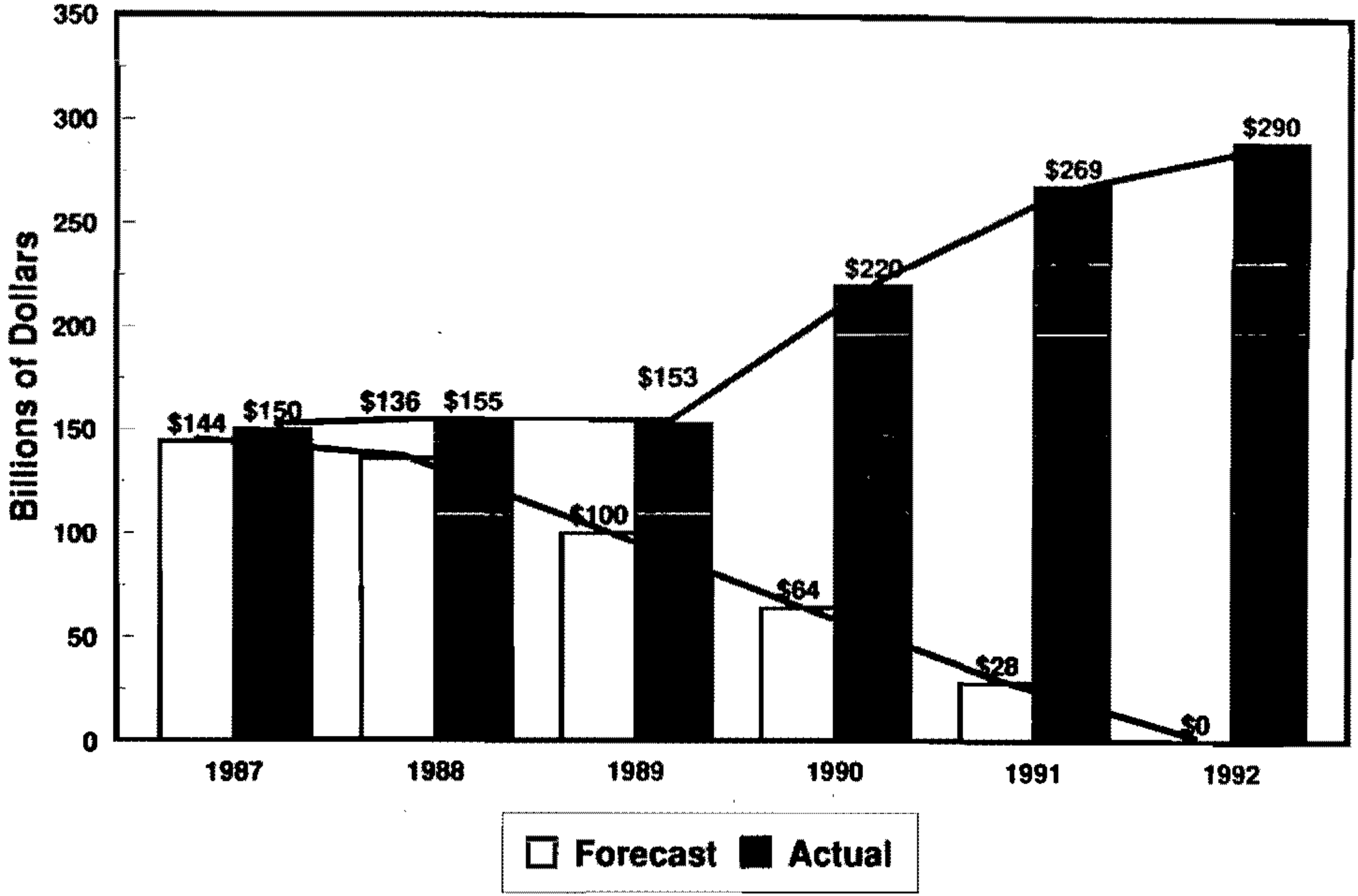
Source: Office of Management & Budget, Joint Economic Committee

Reagan Promises vs. Performance Under Gramm-Rudman I
Budget Deficits, Fiscal Years 1985-1990



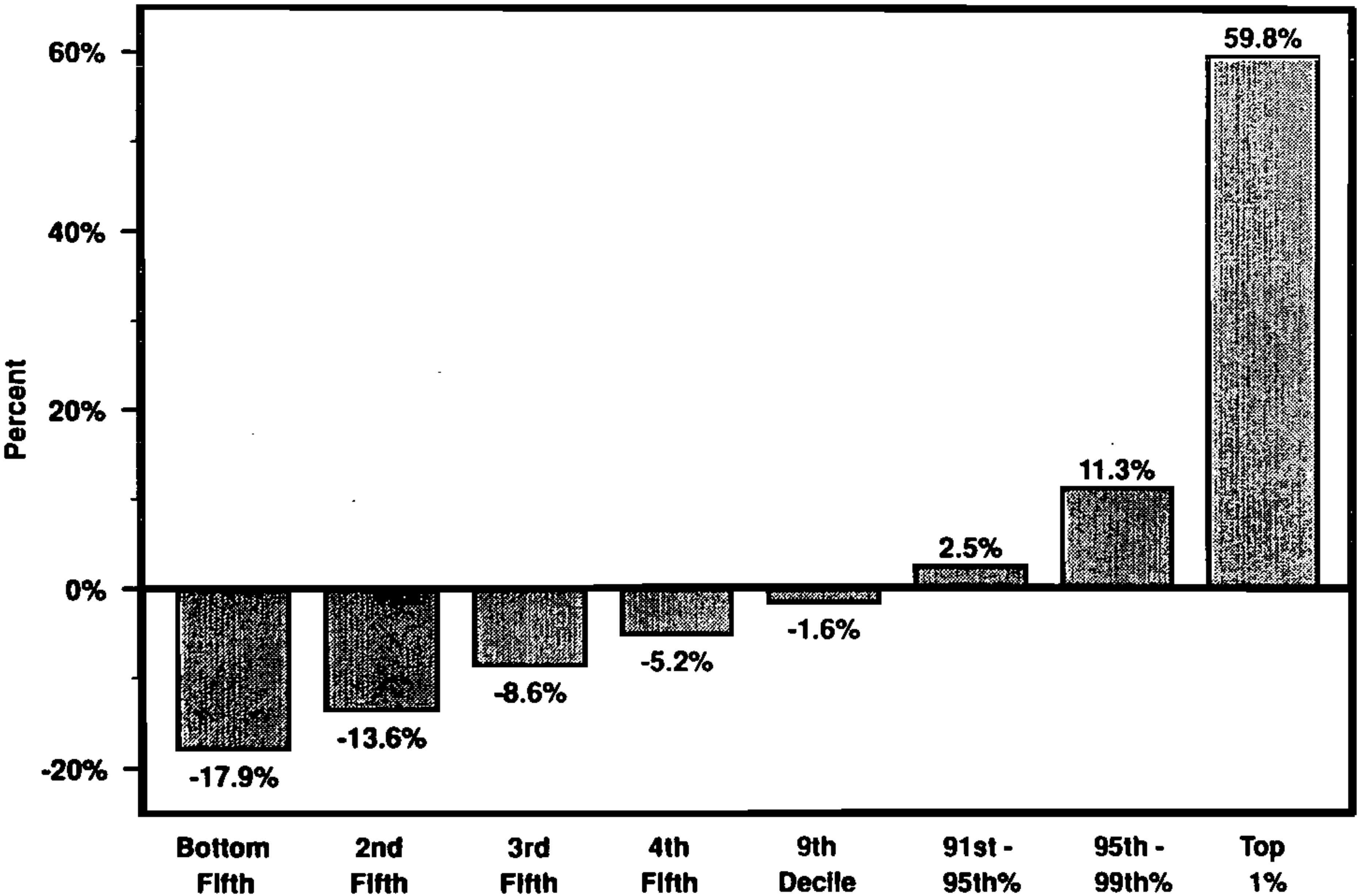
Source: Office of Management & Budget, Joint Economic Committee

Reagan-Bush Promises vs. Performance Under Gramm-Rudman II
Budget Deficits, Fiscal Years 1987-1992



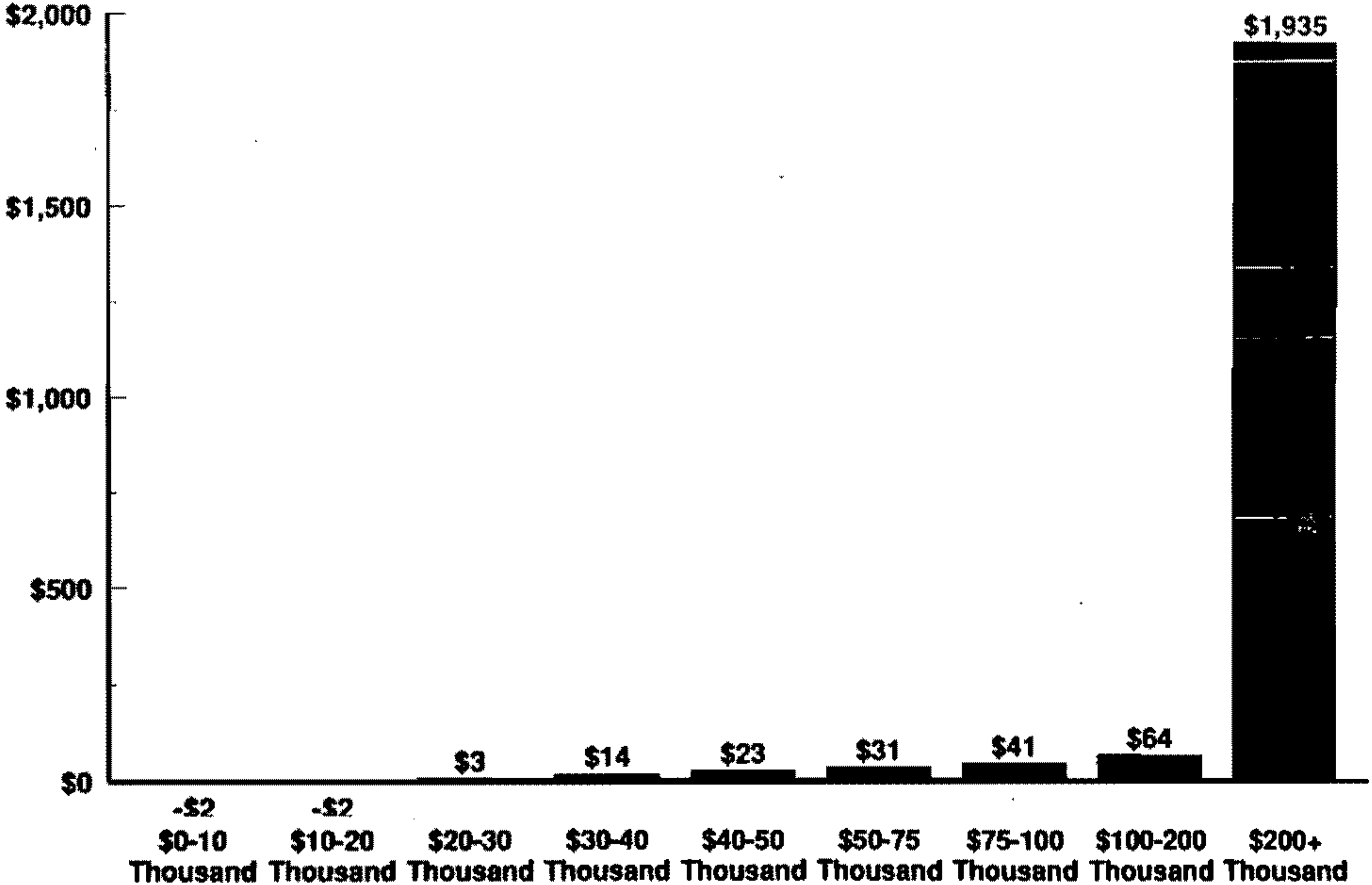
Source: Office of Management & Budget, Joint Economic Committee

Change in Share of Income
by Income Group, 1979-1989



Source: Joint Economic Committee

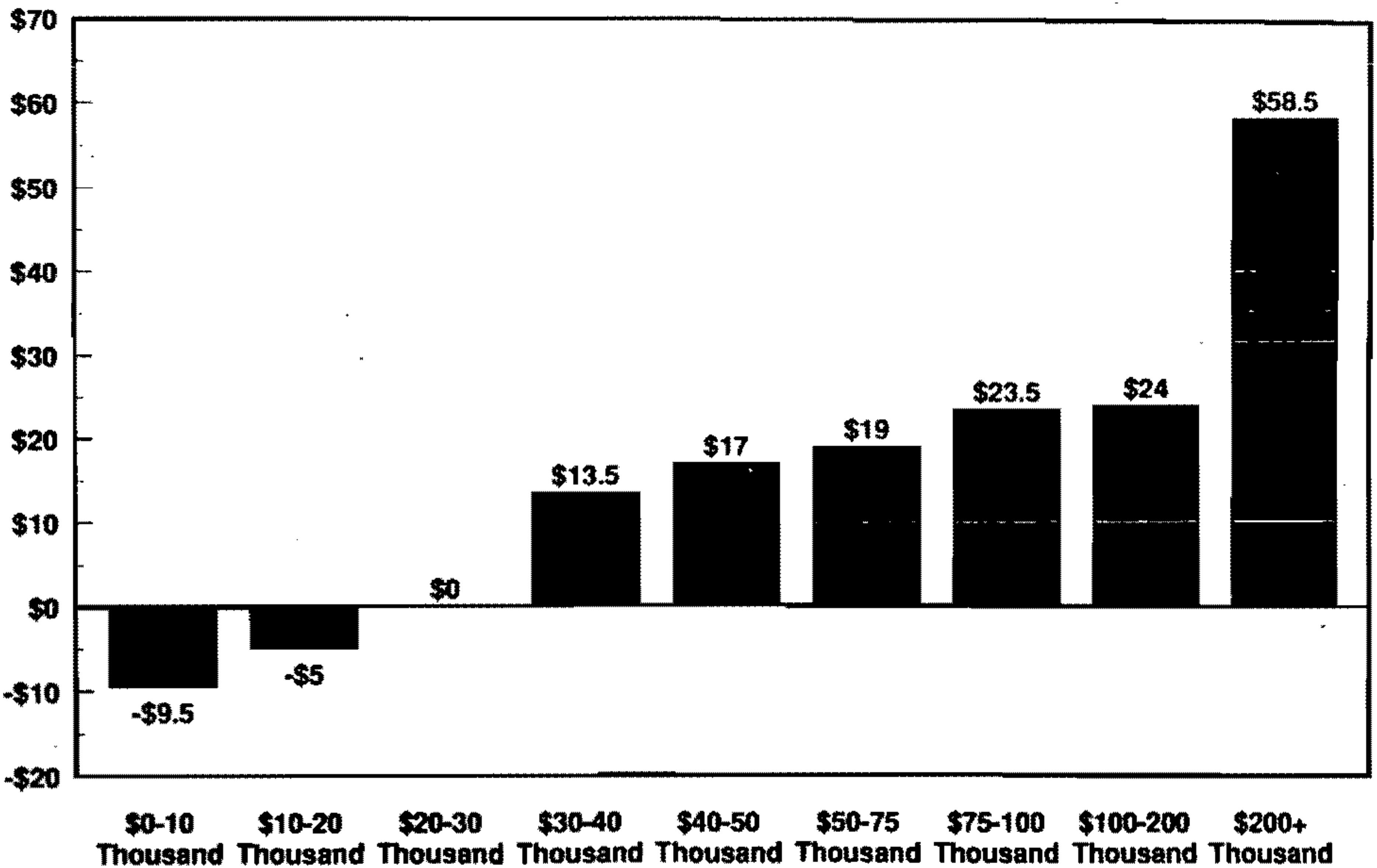
Monthly Contribution By Income Group
Under President Clinton's Deficit Reduction Plan*



Source: CBO, 5/18/93

*When Fully Phased In in 1998

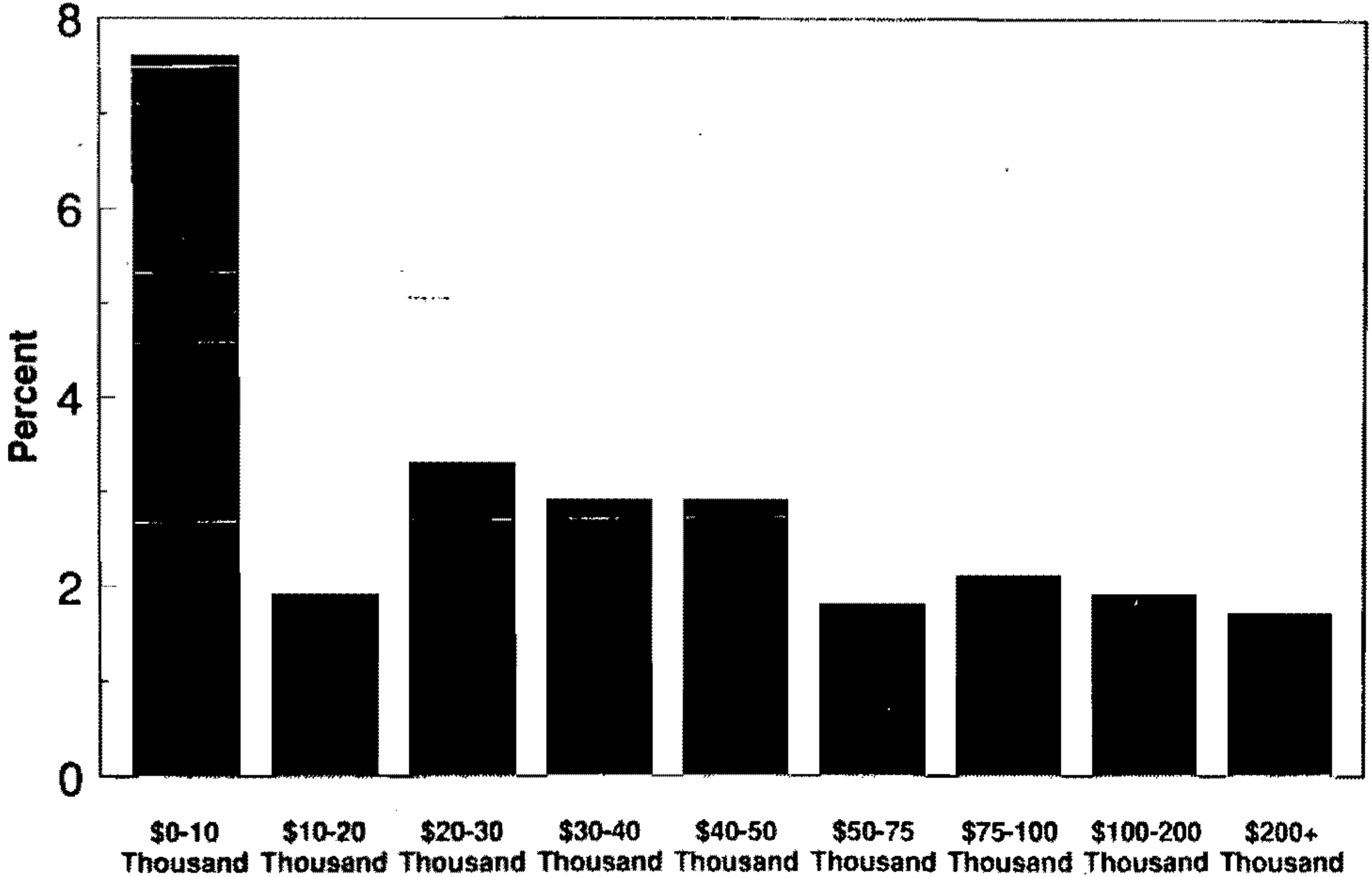
Average Additional Monthly Direct & Indirect Costs Under Proposed Energy Tax in 1997*



Source: Treasury Department

*Including low income offsets.

Increases in Average Monthly Taxes By Income Group Under Original 1990 Bush Summit Plan



Source: Joint Committee on Taxation

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET

MAY 27, 1993

MARTIN OLAV SABO, Chairman

Room 214 O'Neill House Office Building
Washington, DC 20515 (202) 226-7200

TAX FAIRNESS

- Revenues are necessary and fair: Budget deficits are too big, and the cost of debt service alone is too large, for the deficit to be controlled by spending cuts alone. A budget package with spending cuts alone would not share burdens fairly throughout society.

- The bill restores tax fairness: The bill corrects the past decline in the fairness of the tax system. The tax system became less progressive during the late 1970s and 1980s, when upper-income groups prospered but the middle- and lower-income groups did not.

  From 1977 to 1990, the real income of the most affluent, the top 1 percent, rose 74 percent, while the income of the middle rose by only 3 percent.

  From 1977 to 1990 the most affluent (i.e. the top one percent in incomes) had a 20 percent cut in their tax burden (i.e. taxes as a percent of income). But the middle saw no tax relief.

- New revenues come from those with the most ability-to-pay: 75 percent of the higher taxes fall on households with incomes over $100,000. 66 percent falls on those with incomes over $200,000.

  The net tax increase for a middle-income family is less than $200 per year, or less than 1 percent of income.

  Because of expansions in the Earned Income Tax Credit, Food Stamps, and LIHEAP, there is no net increase for low-income families (i.e. those in the bottom 20 percent or with incomes below $20,000).

- Most of the funds come from higher-income taxpayers because ...

  $115 billion is raised from income tax rate changes that will only affect a couple with taxable income of more than $140,000 (or couples whose total income would typically be more than $175,000).

  $29 billion more is raised by subjecting all salaries -- not just the amounts up to $135,000 -- the Medicare payroll tax.

  Additional amounts are raised from corporations and by closing loopholes.

- The BTU-energy tax provides $72 billion needed for deficit-reduction, and is not an excessive burden.

  The overall package -- what counts -- is progressive. The BTU tax by itself does not have to be progressive. Because the BTU tax is broad-based, it raises this large amount for deficit reduction, but costs the typical family less than $17 per month. The tax will encourage energy conservation, reduce pollution and reduce dependence on foreign oil. Partial exemptions have been created for farmers, users of heating oil and heavy industrial users of electricity.

- Detail on the distribution of higher taxes:

DISTRIBUTION OF RECONCILIATION TAX CHANGES
INCLUDING INCREASES IN EARNED INCOME TAX CREDIT,
LOW-INCOME HOME ENERGY ASSISTANCE AND FOOD STAMPS
(1998 law, 1994 income levels)(CBO estimates)

Households by Dollar Income	Dollar change in all taxes	Change in after-tax income	Percent Share of total households	Share of total tax change
Less than $10,000	-120	+2.2	15	-3.8
$10,000 - 20,000	-59	0.4	19	-2.2
$20,000 - 30,000	24	-0.1	17	0.8
$30,000 - 40,000	161	-0.6	13	4.4
$40,000 - 50,000	270	-0.8	10	5.8
$50,000 - 75,000	368	-0.8	15	12.4
$75,000 - 100,000	491	-0.8	6	7.2
$100,000- 200,000	765	-0.8	4	8.5
$200,000 or more	23,217	-6.6	1	65.1
All	463	-1.4	100	100.0

over five years. The impact of this on lower-income persons is offset by increases in the EITC, Low-Income Home Energy Assistance and Food Stamp benefits. Overall, the Congressional Budget Office estimates that 75 percent of the net tax increase (accounting for higher EITC's and expanded Food Stamp payments) will fall on households with incomes over $100,000. CBO also estimates that 73 percent of the net tax increase will be on the upper-income 5 percent of the population.

- The energy tax increase is designed to encourage energy conservation, reduce pollution, and decrease our dependence on imported oil. It is balanced among regions and industries to avoid any excessive burden on particular groups. The tax also applies to imported fuels and to the energy content of energy-intensive imports. If a family took no conservation actions by the time the tax was fully phased in, its home utility bills would go up by 3 to 5 percent and its gasoline bill a little more. When fully phased in, which will take three years, the BTU tax will add a cumulative 0.3 percent to the overall price level, for an almost-unnoticeable impact on the total inflation rate of 0.1 percent per year.

The bill helps low-income people, particularly workers and their children, and does not burden those who rely on Social Security as their main income.

- Social Security benefit payments are not touched. Changes in the taxation of Social Security benefits affect only the highest-income recipients, and bring them closer to the tax treatment of working people with similar incomes. Everyone who now pays no tax on his or her Social Security benefits will continue to be exempt.

- The new EITC allows a full-time minimum wage worker with two children to bring his or her family at least up to the poverty line. It encourages work effort. The proposal will reduce the U.S. child poverty rate, which was one of every four children under age six in 1991. In 1991, 6.8 million poor persons lived in families with children in which someone was employed full-time, year-round.

- This bill increases funding for Food Stamps by $7 billion over the next five years, targeted to the estimated 5.5 million hungry children and an additional 6 million children at risk of hunger in America. The elimination of the shelter cost cap will assist the most needy families with children, who are most at risk of homelessness. Other key changes concerning Food Stamps provide increased child support payments to keep families together, a basic benefit increase and improved anti-fraud and program management measures.

- This bill improves on the President's proposal by <u>not</u> cutting benefits for the survivors and children of federal retirees. It recognizes that under the current benefit structure survivors' income is already substantially reduced, to 55 percent of the retirees' annuity.

When this bill comes to the floor, it will provide a major test for our system of government. We must prove that Congress and the President can unite on a program of economic reconstruction. And the success of our economy will be at stake, for we must invest in our future and that of our children and grandchildren.

House Budget Committee
24-May-93

RECONCILIATION BY HOUSE COMMITTEE
(In millions of dollars)

	BUDGET RESOLUTION TARGETS (March 31, 1993)						AS SUBMITTED BY COMMITTEES (May 14, 1993)					
	1994	1995	1996	1997	1998	1994-98 Total	1994	1995	1996	1997	1998	1994-98 Total
Agriculture												
Deficit reduction....................	-98	-119	-515	-1041	-1177	-2950	-303	-686	-789	-619	-616	-3014
Authorization:												
REA..................................	-42	-86	-133	-172	-194	-627	-8	-21	-34	-46	-53	-161
Consolidate Ag Dept offices........	na	na	na	na	na	na	0	-83	-96	-132	-175	-406
Crop insurance......................	na	na	na	na	na	na	0	-46	-90	-90	-90	-316
Food stamps.........................	565	1610	1660	1705	1745	7285	562	1529	1623	1673	1750	7137
Subtotal, authorization.........	523	1524	1527	1533	1551	6658	554	1379	1403	1405	1432	6174
Armed Services												
Direct spending.....................	-128	-292	-457	-643	-841	-2361	-214	-354	-476	-552	-743	-2339
Authorization:												
Military pay 1/.....................	-2012	-3231	-4117	-5103	-5800	-20263	-2012	-3231	-4117	-5103	-5800	[illegible]
Banking, Finance, & Urban Affairs												
Direct spending:												
Bank exam fees, FDIC...............	-192	-200	-208	-216	-224	-1040	na	na	na	na	na	na
GNMA REMICs.........................	-146	-146	-146	-146	-146	-730	-146	-146	-146	-146	-146	-730
HUD/IRS income verification.......	0	0	-196	-407	-419	-1022	0	0	-196	-407	-419	-1022
Depositor priority for FDIC & RTC.	na	na	na	na	na	na	-35	-105	-180	-220	-210	-750
Reduce FHA premium rebates........	na	na	na	na	na	na	-334	-20	-20	-21	-21	-416
Subtotal, direct spending......	-338	-346	-550	-769	-789	-2792	-515	-271	-542	-734	-796	-2918
Revenue increase:												
Bank exam fees, Fed. Reserve......	-63	-65	-68	-70	-73	-339	na	na	na	na	na	na
Additional Fed payments to Treas..	na	na	na	na	na	na	0	0	[illegible]	-105	-107	-213
Subtotal, revenues............	-63	-65	-68	-70	-73	-339	0	0	0	-105	-107	-213

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House Budget Committee
24-May-93

RECONCILIATION BY HOUSE COMMITTEE
(in millions of dollars)

	BUDGET RESOLUTION TARGETS (March 31, 1993)						AS SUBMITTED BY COMMITTEES (May 14, 1993)					
	1994	1995	1996	1997	1998	1994-98 Total	1994	1995	1996	1997	1998	1994-98 Total
Authorization:												
HUD/IRS income verification........	5	-18	-127	-227	-260	-627	5	-18	-127	-227	-260	-627
Education & Labor												
Direct spending:												
Direct student loan program........	118	102	-485	-1669	-2331	-4265	115	-85	-650	-1610	-2040	-4270
States share FFEL default costs....	0	-24	-57	-106	-118	-305	0	-25	-50	-105	-120	-300
Enhance identification of Medicare/caid 3d-party payers....	0	-150	-250	-398	-449	-1247	0	-150	-250	-398	-449	-1247
Subtotal, direct spending.......	118	-72	-792	-2173	-2898	-5817	115	-260	-950	-2113	-2609	-5817
Energy & Commerce												
Direct spending:												
Medicare..........................	-2462	-4318	-9604	-14026	-17940	-48350	-2968	-7557	-12520	-16353	-18808	-58116
Medicaid & other health...........	-189	-1373	-1740	-2103	-2402	-7799	139	-1451	-1925	-2378	-2794	-8409
Auction FCC spectrum licenses.....	-1700	-1800	-1700	-1000	-1000	-7200	-1700	-1800	-1700	-1000	-1000	-7200
Reauthorize NRC user fee..........	0	0	-378	-389	-402	-1169	0	0	-378	-389	-402	-1169
Childhood immunization............	na	na	na	na	na	na	0	500	520	535	550	2105
Subtotal, direct spending.........	-4342	-7491	-13422	-17518	-21744	-64518	-4429	-10308	-16003	-19595	-22454	-72789
Subtotal, direct spending excluding overlapping "shared" savings with W&M that result because of joint jurisdiction of Medicare.............												-65045
Foreign Affairs												
Direct spending:												
Foreign service retirement.........	0	-1	-1	-1	-2	-5	-3	-3	-3	0	0	-9
Judiciary												
Direct spending:												
Extend Patent & Trademark fees.....	0	0	-111	-115	-119	-345	0	0	-111	-115	-119	-345

House Budget Committee
24-May-93

RECONCILIATION BY HOUSE COMMITTEE
(in millions of dollars)

	BUDGET RESOLUTION TARGETS (March 31, 1993)						AS SUBMITTED BY COMMITTEES (May 14, 1993)					
	1994	1995	1996	1997	1998	1994-98 Total	1994	1995	1996	1997	1998	1994-98 Total
Merchant Marine & Fisheries												
Direct spending:												
Extend tonnage fees...............	0	0	-67	-68	-70	-205	0	0	-67	-68	-70	-205
Natural Resources												
Direct spending:												
Recreation fees, DoI...............	-21	-34	-39	-45	-50	-189	-24	-40	-50	-53	-56	-223
Recreation fees, CoE...............	-13	-18	-18	-18	-18	-85	-13	-18	-18	-18	-18	-85
Recreation fees, DoA...............	-6	-9	-9	-10	-10	-44	-3	-4	-4	-4	-4	-19
Extend 50% net receipt sharing....	-35	-39	-41	-42	-44	-201	-35	-39	-41	-42	-44	-201
Hardrock mining holding fees......	-40	-40	-40	-40	-40	-200	-41	-41	-41	-41	-41	-205
Irrigation water surcharge........	-10	-10	-10	-15	-15	-60	-10	-11	-11	-17	-18	-67
Reauthorize NRC user fee..........	0	0	-378	-389	-402	-1169	0	0	-376	-389	-402	-1169
No. Mariana Islands agreement.....	-6	-7	-8	-10	-12	-43	-6	-28	-28	-28	-28	-118
Subtotal, direct spending.........	-131	-157	-543	-569	-591	-1991	-132	-181	-571	-592	-611	-2087
Post Office & Civil Service												
Direct spending:												
FEHB medicare limits...............	-11	-16	-19	-21	-24	-91	0	-13	-19	-21	-24	-77
FEHB postal service liability.....	0	-116	-116	-116	0	-348	0	-116	-116	-116	0	-348
CSRS postal service liability.....	0	-231	-231	-231	0	-693	0	-231	-231	-231	0	-693
Survivors' annuities...............	-30	-61	-93	-127	-162	-473	na	na	na	na	na	na
Child-survivor benefits............	-5	-10	-15	-20	-25	-75	na	na	na	na	na	na
End lump-sum payments..............	0	0	-2119	-3113	-3382	-8614	-41	-107	-2130	-3132	-3400	-8810
CSRS retirement COLAs..............	-31	-56	-75	-80	-102	-344	-268	-251	-260	0	0	-779
FSRS retirement COLAs..............	0	-1	-1	-1	-2	-5	-3	-3	-3	0	0	-9
Pay-related limitations	na	na	na	na	na	na	-2	-6	-8	-11	-13	-40
Subtotal, direct spending.........	-77	-491	-2669	-3709	-3697	-10643	-314	-727	-2767	-3511	-3407	-10756

House Budget Committee
24-May-93

RECONCILIATION BY HOUSE COMMITTEE
(in millions of dollars)

	BUDGET RESOLUTION TARGETS (March 31, 1993)						AS SUBMITTED BY COMMITTEES (May 14, 1993)					
	1994	1995	1996	1997	1998	1994-98 Total	1994	1995	1996	1997	1998	1994-98 Total
Authorization:												
Civilian employee pay.............	-2903	-4660	-5825	-7169	-8164	-28721	-3139	-4757	-6232	-7320	-7885	-29333
Revenue foregone..................	na	na	na	na	na	na	-33	-36	-39	-40	-44	-192
Subtotal, authorization........	-2903	-4660	-5825	-7169	-8164	-28721	-3172	-4793	-6271	-7360	-7929	-29525
Public Works & Transportation												
Deficit reduction:												
Recreation fees, CoE..............	-13	-18	-18	-18	-18	-85	-13	-18	-18	-18	-18	-85
Aircraft registration fee.........	-18	-31	-44	-58	-60	-211	-41	-42	-42	-44	-45	-214
Subtotal, deficit reduction......	-31	-49	-62	-76	-78	-296	-54	-60	-60	-62	-63	-299
Veterans' Affairs												
Direct spending.....................	-266	-364	-382	-405	-1163	-2580	-260	-363	-383	-410	-1175	-2590
Ways & Means												
Deficit reduction...................	-29441	-41415	-61912	-81794	-85209	-299771	na	na	na	na	na	na
Medicare............................	na	na	na	na	na	na	-3038	-8295	-13815	-17907	-20522	-63577
Family preservation and support.....	na	na	na	na	na	na	48	115	208	323	536	1230
Other direct spending...............	na	na	na	na	na	na	853	305	-688	-795	-1112	-1436
EITC................................	na	na	na	na	na	na	339	3735	6895	7191	7518	25678
Revenues (excl EITC)................	na	na	na	na	na	na	-32697	-41598	-54763	-73656	-72530	-275243
Subtotal, deficit reduction......	-29441	-41415	-61912	-81794	-85209	-299771	-34495	-45738	-62163	-84843	-86110	-313348

Subtotal, deficit reduction excluding overlapping "shared" savings with E&C that result because of joint jurisdiction of Medicare............ -300214

House Budget Committee
24-May-93

RECONCILIATION BY HOUSE COMMITTEE
(in millions of dollars)

	BUDGET RESOLUTION TARGETS (March 31, 1993)						AS SUBMITTED BY COMMITTEES (May 14, 1993)					
	1994	1995	1996	1997	1998	1994-98 Total	1994	1995	1996	1997	1998	1994-98 Total
Offsets to multiple assignments												
Direct spending..........................	2481	4559	10365	15006	19144	51554	3337	8681	15539	20662	24520	72738
GRAND TOTAL:												
Deficit reduction 2/..................	-31751	-44693	-69526	-92241	-97562	-335774	-36705	-48741	-67723	-91045	-92640	-336854
Direct spending....................	na	na	na	na	na	na	-4570	-8672	-14583	-18957	-21753	-68535
Revenues............................	na	na	na	na	na	na	-32697	-41598	-54763	-73761	-72637	-275456
Authorization.........................	-4387	-6385	-8542	-10966	-12673	-42953	-4625	-6663	-9112	-11285	-12557	-44241
Addendum:												
Direct spending (including food stamps, excluding EITC) 3/.......	na	na	na	na	na	na	-4347	-10878	-19855	-24475	-27521	-87076
Revenues (including EITC)..........	na	na	na	na	na	na	-32358	-37863	-47868	-66570	-65119	-249778

Note: Individual committee totals do not add up to the grand total because of overlapping "shared" savings resulting from joint jurisdiction of programs.

1/ Armed Services intends to make technical corrections to its reported reconciliation package in the Rules Committee. The numbers shown reflect the corrected package.

2/ Total deficit reduction includes $7.1 billion over five years of increased food stamp spending to fund the Mickey Leland Childhood Hunger Relief Act. The food stamp increase is classified as an authorization, rather than direct spending, for purposes of reconciliation. As a result, the total for deficit reduction is lower than the combined revenue increases and direct spending savings (entitlement cuts) shown above.

3/ Entitlements are cut $87 billion over five years. When the interest savings associated with these spending cuts are included, total savings are $97 billion over five years.

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET

NEWS

MARTIN OLAV SABO, Chairman

Room 214 O'Neill House Office Building
Washington, DC 20515 (202) 226-7200

May 20, 1993

RECONCILIATION: THE CORNERSTONE OF THE PRESIDENT'S ECONOMIC PROGRAM

When the House passes this reconciliation bill, it will have taken a first, giant step toward restoring economic health and fiscal sanity.

This bill embodies all the basic elements of the President's program to turn our country away from being an excess-consumption economy and toward investment in the future productivity of our people.

* Overall, this bill reduces the deficit by approximately $500 billion over five years. Of this, $250 billion is in spending reductions and $250 billion in revenue increases. The spending changes include an additional $50 billion in spending cuts beyond those proposed by the President.

* Once this bill is enacted, the deficit, instead of soaring to $361 billion (4.6 percent of Gross Domestic Product) in 1998 as it would under current spending and tax policies, should fall to around $200 billion (2.6 percent of GDP), according to the conservative economic and budget projections of the Congressional Budget Office. This is the necessary first step in long-run deficit control. Once these measures are taken, we can work on health care reform and growth-enhancing policies to make further progress on the deficit.

* At the end of fiscal year 1998, the federal debt will be lower than it would have been under current policies by nearly half a trillion dollars.

* Every policy change in this bill is specific and enforceable. This bill changes entitlement law, changes tax law, and when enacted will establish new caps on discretionary spending to ensure that appropriations do not exceed the levels established in the budget resolution.

This bill is an essential step toward the repair of an ailing economy. In the 1980's and early 1990's, America was subjected to growing deficits and debt and to patterns of Federal spending and taxation that paid inadequate attention to investment.

As a result, we now have:

* inadequate private investment in productive plant and equipment;

* inadequate public investment in infrastructure and in our people;

* a trade deficit that just shot up to $10 billion in March, the highest monthly figure in four years;

- stagnation in the real wages of the typical American worker and the real income of the typical American family -- real average weekly earnings in April were 0.8 percent below the level of a year ago;

- increased inequality of income and wealth, as the economic gains of the 1980's disproportionately benefitted the wealthy.

All these problems are the symptoms of an economy that has been subsisting for 12 years on the false stimulus of chronic deficits. Congress and the President have begun, with this bill, to restore health to the economy so that it can once again grow and deliver a decent standard of living to all our people.

- This bill reduces the huge drain on the nation's savings pool that the deficit represents. Every dollar of deficit reduction means either a dollar more for private investment in housing, plant, and equipment, or a dollar less in jobs sent overseas. Increases in private investment are required to raise our standard of living and give American workers more tools to improve their productivity and earnings.

- This bill includes $78 billion in tax incentives for investment, jobs, and encouragement of work effort, aimed at small business and at communities and individuals currently suffering from low incomes.

- This bill specifically mandates -- and finances -- increases in childhood immunization and family preservation and support. For immunization, the bill includes $2.1 billion over five years to provide free vaccines to children who have no health insurance coverage or are eligible for Medicaid. The bill also authorizes a tracking system so that children are fully immunized at the appropriate age for certain childhood diseases.

- Within this bill's overall caps on discretionary spending, there is room to fund other Presidential programs for investment in our human and physical infrastructure.

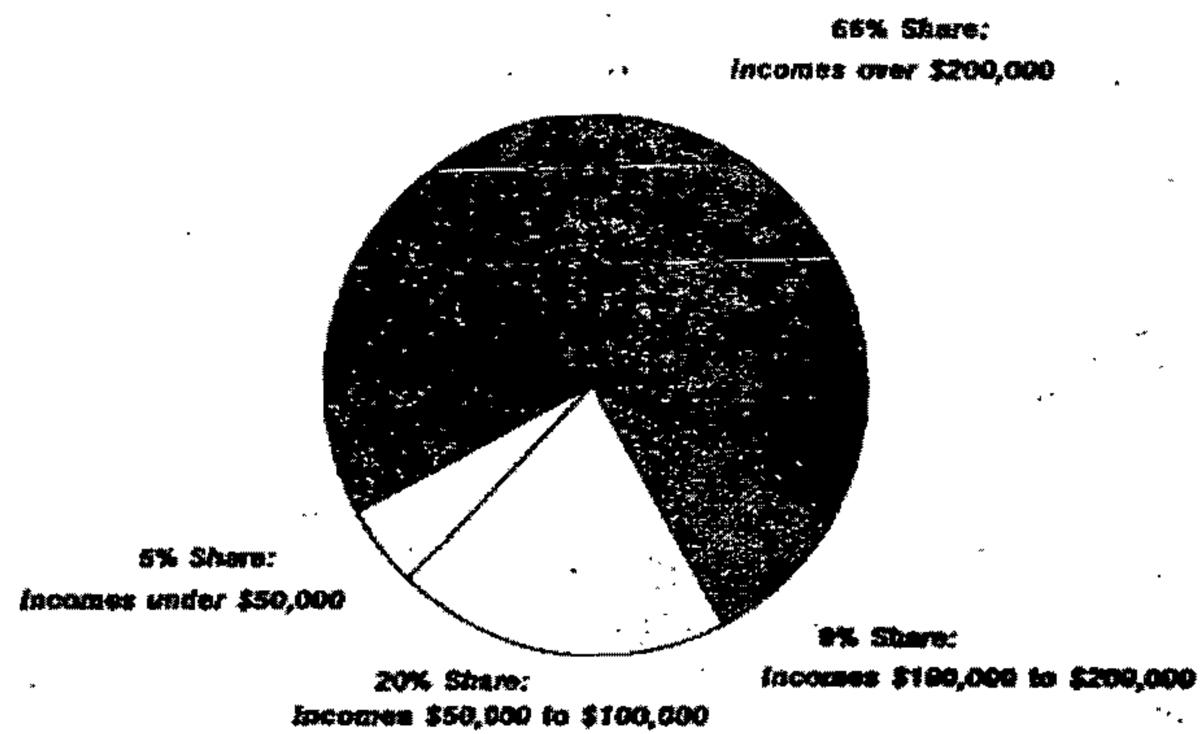
Half of the deficit reduction is made on the spending side. But the budget can't be brought under control by spending cuts alone -- not without starving investment programs, making deep cuts in benefits that citizens have fairly earned, and inflicting hardship on people already suffering. A budget balanced by spending cuts alone will not share burdens fairly throughout society. The wealthy are not major beneficiaries of government spending programs, and they can only contribute to deficit reduction through a progressive tax system. This legislation requires that those who benefitted from the policies of the 1980's and early 1990's will pay their share of the bill that has come due.

- The revenue component of this bill is a net increase of $250 billion, including all effects of the expansion in the Earned Income Tax Credit (EITC).

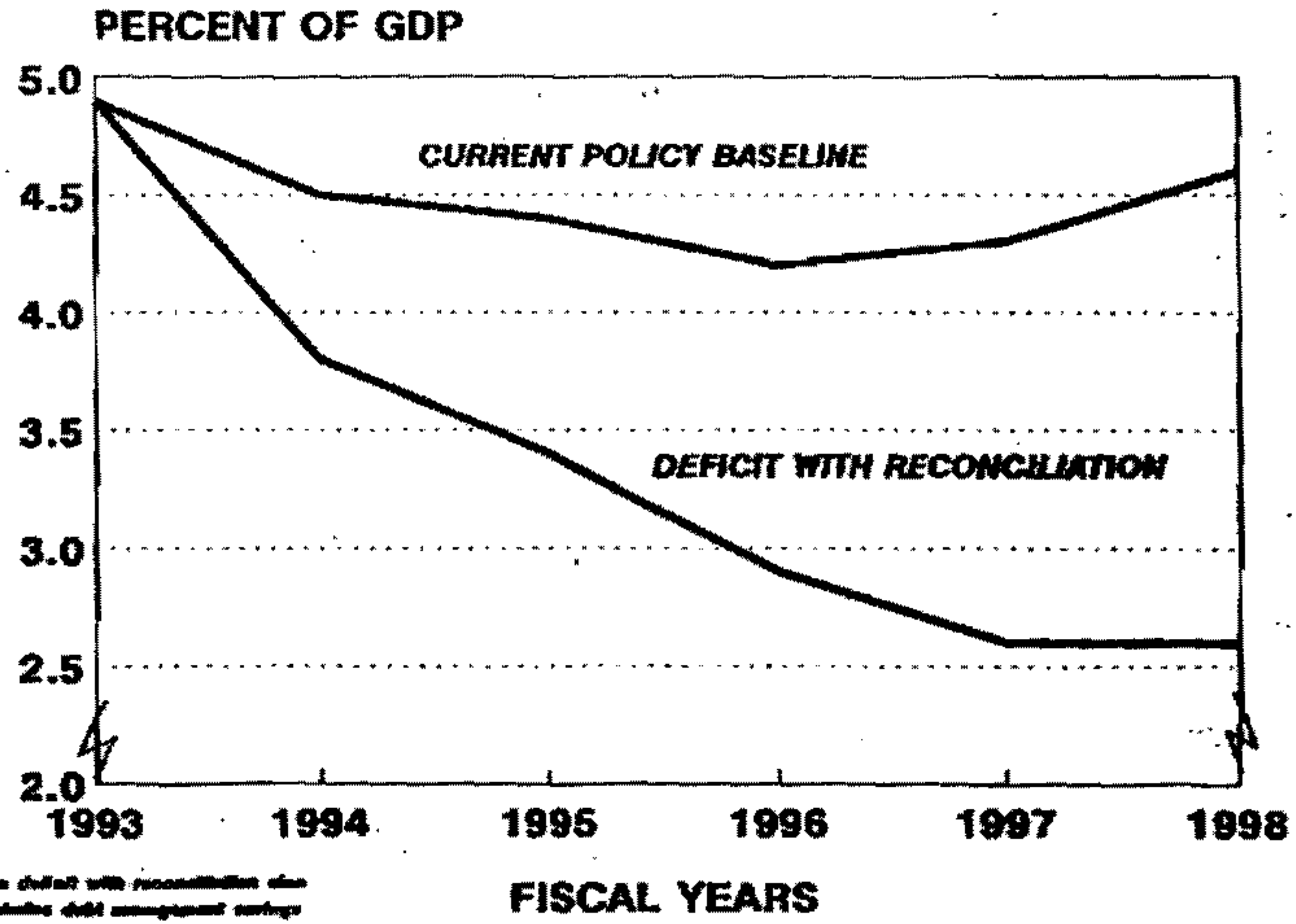
- The tax package restores tax code progressivity lost in recent years.

- Most of the tax increases affect only higher-income individuals and corporations. The exception is the BTU energy tax which raises $72 billion

DISTRIBUTION OF HIGHER TAXES UNDER RECONCILIATION BILL



DEFICIT REDUCTION FROM THE RECONCILIATION BILL



The deficit with reconciliation also includes debt management savings which do not require legislation.

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

SPENDING CUTS IN RECONCILIATION BILL
(Outlays in millions of dollars)

May 21, 1993

	1994-98 Total
AGRICULTURE COMMITTEE	
Unpaid Flexible Acres	-1960
Conservation Reserve (CRP) & Wetlands Reserve (WRP)	-469
Dairy Program	-259
Market Promotion Program (MPP)	-235
Peanut Marketing Assessments	-112
Wool and Mohair Program	-47
Forest Service Recreation Fees	-44
Honey Support Program	-23
Sugar and Tobacco Assessments	-22
Rural Electrification Administration (REA)	-161
Farm Service Agency	-486
Crop Insurance	-316
ARMED SERVICES COMMITTEE	
Retirement COLAs	-2339
Pay Raise Changes	-20263
BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE	
Depositor Priority for FDIC & RTC	-750
Reduce FHA Premium Rebates	-416
GNMA REMIC Guarantees	-730
HUD/IRS Income Verification	-1649
EDUCATION AND LABOR COMMITTEE	
Direct Student Loan Program	-4270
States Share FFEL Default Costs	-300
Third Part Medicare/caid Liability	-1247
ENERGY AND COMMERCE COMMITTEE	
Medicare:	
Physician payments	-8048
Prohibition on Physician Referral	-350
Laboratory Services	-3220
Hospital Outpatient and Ambulatory Surgical Services	-2058
Medicare Secondary payor Provisions	-5522
Durable Medical Equipment (DME)	-908
Hospital-Based Home Health Agencies	-1160
Erythropoietin (EPO)	-243
Part B Premiums	-6828
Medicaid:	
Personal Care Mandate	-4170
Drug Formularies	-220
Transfer of Assets/Estate Recovery	-950

Disproportionate Share Hospitals (DSH)	-2280
Anti-fraud and Abuse	-37
Medicaid Offsets to Immunization Program	-905
Third-party Collections	-1387

FCC Spectrum Auction	-7200
Nuclear Regulatory Commission (NRC) User Fees	-1169

JUDICIARY COMMITTEE

Patent and Trademark Office (PTO) Fees	-348

MERCHANT MARINE AND FISHERIES

Tonnage Fees	-205

NATURAL RESOURCES COMMITTEE

Northern Marianas Islands	-118
Extend 50% Net Receipt Sharing	-201
Hardrock Mining Holding Fees	-205
Irrigation Water Surcharge	-87
Recreation Fees	-327
Nuclear Regulatory Commission (NRC) Fees	-1169

POST OFFICE & CIVIL SERVICE COMMITTEE

Civil Service Retirement	-779
Foreign Service Retirement	-9
Lump-Sum Retirement Option	-8910
Payments by the United States Postal Service	-1041
Federal Employee Health Benefits (FEHB)	-77
Congressional & Judicial Pay COLAs	-40
Federal Civilian Employee Pay Adjustments	-24764
Additional Personnel Reductions	-1268
Cash Bonus Awards	-3250
SES Leave Accumulation	-55
Revenue Foregone	-192

PUBLIC WORKS AND TRANSPORTATION

General Aviation Fees	-214
Army Corps of Engineers Rec Sites Facilities Fees	-85

VETERANS' AFFAIRS COMMITTEE

Death and Indemnity Compensation (DIC)	-133
Pensions-reduce pensions for veterans who are patients in Medicaid-paid nursing homes	-531
Pensions-extends IRS income verification for pensions eligibility	-136
Montgomery GI Bill Education Benefits	-73
Medical Care Reimbursement	-606
Medical Care Reimbsmnt for Service-connected Conditions	-368
Medical and Drug Co-payments	-79
DVA Housing Programs	-665

To: Sylvia Mathews
From: John Angell

f: ec plan/
reconciliation
House

STATUS OF
PRESIDENT'S ECONOMIC PROGRAM

RECONCILIATION	5-YR. SAVINGS ($ in billions)	STATUS
Agriculture	3 *	✓
Armed Services	2	✓
Banking	3	✓
Education and Labor	6 *	✓
Energy and Commerce	48 *	✓
Foreign Affairs/Judiciary Merchant Marines/Public Works	1 *	✓
Natural Resources	2 *	✓
Post Office and Civil Service	11 *	✓
Veterans Affairs	3 *	✓
Ways and Means	300 *	✓
Total	343	
DISCRETIONARY SAVINGS	102	✓
DEBT SERVICE	51	✓
TOTAL		
CBO Scoring	496	
OMB Scoring	524	

*Includes items reconciled to multiple committees.

BUDGET ENFORCEMENT MECHANISMS

- Discretionary Spending Controls
- Pay-As-You-Go
- Sequester
- Deficit Reduction Trust Fund
- Modified Line-Item Veto

HISTORY OF RECONCILIATION SAVINGS
(In billions of dollars)

Reconciliation Legislation 1/	Deficit Reduction Achieved Over 3 Years	5 Years
1981	-233	NA
1982	128	NA
1983	4	NA
1984	63	NA
1985	18	NA
1986	13	NA
1987	48 2/	NA
1989	24	41
1990	130	245
1993	150 3/	343 3/

1/ Includes separate tax bills in 1981 and 1982.

2/ Estimates available for only 2 years.

3/ Targets.

RECONCILIATON SCHEDULE

May 14 - Committees report reconciliation

May 17 - All legislation to House Budget Committee

May 20 - House Budget Committee reports reconciliation bill

May 25 - Reconciliation bill filed

May 26 - Rules Committee

May 27 - House floor

AGRICULTURE COMMITTEE

5 Year Savings Target: $2.95 billion

Savings Achieved

- o Increases "triple base" acres (crops grown on these acres are not eligible for deficiency payments) for program crops from 15 to 20 percent, starting with 1994 crop.
- o Increases assessments on some non-program crops: by 10 percent for tobacco and sugar, by 2 percent for peanuts.
- o Decreases current law assessment on dairy to 10 cents.
- o Reduces Market Promotion Program to $148 million per year (equals FY 1993 level).
- o Lowers payment limit on honey, and wool and mohair programs to $50,000. Reduces honey program loan rate. Eliminates marketing assessment on wool.
- o Increases Forest Service recreation fees.
- o Stretches out sign-ups beyond 1995 for Conservation and Wetlands Reserve Programs.
- o Adjusts purchase prices to effectively buy more milk powder and buy less butter.
- o Creates free catastrophic crop insurance for losses above 65 percent.
- o Reforms Rural Electrification Administration (REA) to reduce 5 percent loans and establish municipal bond rate and Treasury rate loan programs. Consolidates REA under the Rural Development Administration.
- o Expands Food Stamp benefits to improve the well-being of low-income families and help offset the effects of the energy tax.

HOUSE ARMED SERVICES COMMITTEE

5 Year Savings Target: $2.4 billion direct spending
$20.3 billion authorization

Savings Achieved

- o Delays the 1994 military retiree COLA by four months from January to May 1994.
- o Delays the 1995 through 1998 military retiree COLAs by three additional months each year. These COLAs would be granted August 1995, November 1996, February 1998 and May 1999.
- o Exempts disabled retirees and survivors from the COLA delays.
- o Achieves required discretionary spending targets by:
  - -- Freezing military pay in 1994
  - -- Reducing ECI-based military pay raises by one percentage point in 1995, 1996 and 1997.

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

5 Year Savings Target: $3.1 billion

Savings Achieved

- o Authorizes HUD to use IRS data to verify the income of families that live in assisted housing. Savings result from more accurate reporting of income since housing subsidies vary inversely with income levels.
- o Approves the use of real estate mortgage insurance conduits by the Government National Mortgage Association. Savings are due to the additional guarantee fees GNMA collects from each REMIC.
- o Accelerates the rate at which the Federal Housing Administration's Mutual Mortgage Insurance Fund collects a one-time upfront fee from homebuyers.
- o Requires the transfer of earnings from the Federal Reserve's surplus reserves to the Treasury in 1997 and 1998.
- o Grants national depositor preference to the Federal Deposit Insurance Corporation, the Resolution Trust Corporation and all uninsured depositors. This preference gives them first claim to the assets of a failed depository institution.

HOUSE EDUCATION AND LABOR COMMITTEE

5 Year Savings Target: $5.8 billion

<u>Savings Achieved</u>

- o Converts the guaranteed student loan program into a direct loan program and provides student borrowers with a range of flexible loan repayment options.

- o To encourage States to insure that post-secondary institutions provide quality educations, charges an annual fee based on the dollar amount of defaults by borrowers who attended schools within the State that is in excess of 20 percent.'

- o Removes unintended barriers preventing States from recovering Medicaid payments properly paid by proper health insurance.

ENERGY AND COMMERCE COMMITTEE

5 Year Savings Target: $7.2 billion for Auction of the Radio Spectrum

<u>Savings Achieved</u>

- o Authorizes auctions for assignment of FCC licenses for use of the radio spectrum.
- o Treats spectrum licenses the same as licenses for offshore drilling, grazing on federal land, and harvesting timber from national forests.

5-Year Savings Target: $1.16 billion for Nuclear Regulatory Commission (NRC) Fees

<u>Savings Achieved</u>

- o Reconciliation bill amends the Omnibus Budget Reconciliation Act of 1990 to extend to the end of FY98 the existing requirement that the NRC recover 100% of its costs through user fees. This requirement to recover 100% of NRC costs currently expires at the end of FY95. Without this amendment, NRC would only recover 33% of its costs through user fees.
- o The NRC fee extension increases receipts by $1.16 billion in FY96 through FY98.

5 Year Savings Targets: $48.35 billion for Medicare
$7.9 billion for Medicaid

<u>Savings Achieved -- Medicare</u>

- o reduction in the Medicare Volume Performance Standard that would limit future physician payment fee increases;
- o limits payments for clinical laboratory tests;

- correct an error that would have mandated coverage of personal care services in all States, thus allowing States to retain personal care as an optional benefit;

Investments

- The Committee adopted legislation to help assure that the Nation's children have access to immunizations. The Committee's immunization proposal will purchase pediatric vaccines for: (1) all Medicaid eligible children, (2) Native American children, (3) uninsured children, and (4) insured children whose insurance fails to cover vital immunization services. The action will assure that costly vaccines will no longer be a barrier to childhood immunizations.

- The Committee also adopted the President's immunization monitoring and notification proposal. This proposal will allow monitoring of children's immunizations and notifying parents of upcoming or missed immunizations.

- The Committee extended some areas of Medicaid coverage, including:

  -- raising the cap on Federal Medicaid contributions to Puerto Rico and the other U.S. territories; and

  -- funding medical assistance payments for States with a disproportionate share of border-crossing individuals.

  -- extending eligibility for some Medicaid services to impoverished TB patients.

HOUSE FOREIGN AFFAIRS COMMITTEE (HFAC)

5 Year Savings Target: $5 million

<u>Savings Achieved</u>:

- HFAC deferred to the House Post Office and Civil Service Committee (PO & CS) to report out legislation necessary to amend COLA benefits to retirees, including those in the Foreign Service retirement program.

- HFAC informed the House Budget Committee in writing today that HFAC supports the PO & CS Committee legislation to delay COLAs for three months in '94, '95, and '96.

HOUSE JUDICIARY COMMITTEE

5 Year Savings Target: $0.3 billion

<u>Savings Achieved</u>

- o This proposal extends patent fee surcharges created by Omnibus Budget Reconciliation Act of 1990 (OBRA) that would otherwise expire at the end of 1995. This proposal does not increase patent fees beyond levels anticipated under current law.
- o The savings begin in 1996, at slightly over $100 million per year through 1998.

HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE

5 Year Savings Target: $0.2 billion

Savings Achieved

- Meets the target by extending the Tonnage Duty Fees included in the Omnibus Budget Reconciliation Act of 1990 (OBRA) that would otherwise expire at the end of 1995. This proposal does not increase fees beyond the levels contained in OBRA.
- The savings begin in 1996, at over $65 million annually.
- The Fees are collected by the Customs Service but are credited as offsets to the Department of Transportation for services provided by the Coast Guard to the merchant marine industry such as aids to navigation.
- The fees are paid by all ships entering U.S. ports after calling on foreign ports.

HOUSE NATURAL RESOURCES COMMITTEE

5 Year Savings Target: $2 billion

Savings Achieved

- o Permanently recovers 50 percent of Administrative costs for Federal mineral leasing programs prior to the sharing of receipts with States.
- o Permanently institutes a hard rock mining claim maintenance fee in lieu of the current assessment work requirement.
- o Authorizes collecting a surcharge from beneficiaries of Federal western water projects.
- o Expands the authority for the collection of certain recreation fees and user fees for rights-of-ways, commercial tours, and communication sites on Federal lands.
- o Reforms grant assistance for the Commonwealth of the Northern Mariana Islands.
- o Extends through FY 1998 the existing requirement that the Nuclear Regulatory Commission recover 100% of its costs through user fees.

HOUSE POST OFFICE and CIVIL SERVICE COMMITTEE

5 Year Savings Target: $10.6 billion direct spending
$28.7 billion authorization

<u>Savings Achieved</u>

- o Eliminates the 1994 annual civilian pay adjustment; reduces the adjustment by 1% in 1995, 1996, and 1997; and delays to July 1 the effective date of the adjustment beginning in 1995 and ending in 2003.
- o Delays to July 1 the effective date of locality pay beginning in 1994 and imposes a ceiling on the cost of locality pay for fiscal years 1994 through 1998.
- o Reduces the Federal workforce by 150,000 over the next five fiscal years.
- o Eliminates cash awards between fiscal years 1994 through 1998.
- o Caps the amount of annual leave that members of the Senior Executive Service can accumulate.
- o Delays COLAs for civilian retirees by 3 months during FY 1994 - 1996. (Includes Civil Service, Foreign Service and CIA)
- o Permanently eliminates the "lump sum" retirement option except for the critically ill, beginning January 1, 1994.
- o Extends the current formula that determines the government's share of Federal Employee Health Benefit premiums through 1998.
- o Adopts medicare limits for charges physicians and other providers may make to Federal Employee Health Benefits enrollees age 65 and over who are not Medicare eligible.
- o Requires the U.S. Postal Service to make payments, over three years, to the Civil Service Retirement and Disbility Fund and to the Federal Employees Health Benefits Fund to satisfy past Postal pension and health care liabilities.

HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

5 Year Savings Target: $0.3 Billion

Savings Achieved

- Charges more equitably for Federal Aviation Administration (FAA) services provided to users of the national airspace system. These charges are described as follows.

  - Increases annual general aviation aircraft registration fee and ties it to aircraft weight. Fee ranges from $40 per year for small aircraft to $2,000 for larger aircraft. This is estimated to raise $137 million over 5 years.

  - Increases general aviation aircraft title recordation fee to $200. This is a one-time fee paid whenever an aircraft is bought or sold. The Committee action will permit the fee to be weight based, i.e., the fee must average $200 across all payees. This is estimated to raise $48 million over 5 years.

  - Establishes an aviation medical examiner certification fee of $500. Doctors take classes from the FAA for free, receive credit towards their state accreditation requirements, and then charge pilots for the annual medical exam required by the FAA. This will raise an estimated $15 million over 5 years.

  - Increases the triennial pilot certificate fee of $12. This will raise $13.8 million over 5 years.

- Permits the Army Corps of Engineers to increase fees for the use of recreational facilities it administers.

HOUSE VETERANS AFFAIRS COMMITTEE

5 Year Savings Target: $2.6 billion.

<u>Savings Achieved</u>

- o Extends five provisions in current law that allow VA to:

  - -- Collect from veterans health insurers the costs of medical care provided by VA to veterans with military-related disabilities for the treatment of non-military related conditions.

  - -- Collect a $2 copayment for each 30-day supply of outpatient prescription drugs that are not for the treatment of military-related disabilities.

  - -- Use Internal Revenue Service and Social Security Administration data to verify veterans' incomes in the income-tested pension and medical care programs.

  - -- Limit pension payments to $90 per month for veterans living in Medicaid nursing homes.

  - -- Allow VA to include the costs of expected losses on the resale of foreclosed property in the formula that determines whether it is more cost-effective to acquire the property and sell it or pay the guarantee to the lender.

- o Increases fees charged for most VA home loans by .75 percent.

- o Authorizes VA to collect from veterans' health insurers the cost of care for treatment of military-related conditions.

- o Freezes the annual increase in benefits for surviving family members who receive the highest benefits payments.

- o Reduces the new annual increase in GI Bill benefits by one percent.

- o Limits educational assistance benefits for veterans' dependents to natural and adopted children of veterans.

HOUSE WAYS AND MEANS COMMITTEE

5 Year Savings Target: $48.35 billion for Medicare

<u>Savings Achieved</u>

- o The Ways and Means Medicare package would save $50.5 billion over five years -- meeting the savings objectives of the President's budget.
- o Ways and Means placed a two-year hold on increasing the fees to Medicare health providers. These temporary limits on payment increases to hospitals, physicians, and other Medicare providers would save $38 billion over five years.
- o Medicare Secondary Payer reforms that help assure that automobile, workers compensation and other insurance pay before Medicare trust funds are used;
- o The Committee extended the Part B (SMI) premium levels beyond 1995.
- o The Committee adopted a tough, expanded prohibition on self-referrals by physicians, i.e., to facilities in which they have a financial interest.

5 Year Investment Target: $20.48 billion (net) for Child Support Enforcement, Matching Rates for Welfare Programs, Family Preservation and EITC

<u>Investments</u>

- o Improves child support enforcement by streamlining paternity establishment procedures and strengthening medical support enforcement.
- o Changes various Federal funding match rates for State administrative costs of the AFDC program to a uniform 50%.

- Charges States fees for a portion of the cost of administering their State supplemental SSI payments.

- Increases the earned income tax credit for working families with children, and creates a new credit for low income workers without children.

- Initiates a new family support and preservation program to provide low-income parents with the skills to help raise their children and services to prevent the need for foster care placement.

- Extends expiring Trade Adjustment Assistance program for three years to provide training and income support to workers who lose their jobs because of increased imports.

- Increases Federal share of Unemployment Insurance Extended Benefits costs to 75 percent (from 50 percent) to encourage States to adopt the optional trigger for this stand-by program, making the program more widely available.

THE WHITE HOUSE

WASHINGTON

October 11, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: **LEON PANETTA AND BOB RUBIN**

SUBJECT: **Fall Budget Issues to be Discussed with Democratic Leadership:**

Attached are three separate memos on the main issues that we will need to discuss with the Democratic Leadership:

- Balanced Budget Amendment to the Constitution;
- Budget Savings Commission; and
- October Savings Package

The NEC, your inside political advisers, and in some instances the Vice President and Mack McLarty) have had several meetings on these issues, which will be the topics for the meeting planned at 9:30 a.m. in the Cabinet Room on Tuesday, October 12th. (The NEC, as used herein, refers to the core members, to wit, Secretaries Bentsen, Reich and Brown, Director Panetta, CEA Chair Tyson, DPC Assistant Rasco and NEC Assistant Rubin, along with appropriate deputies.)

BALANCED BUDGET AMENDMENT

A. **ISSUE FOR DECISION**: We must soon choose whether to support the Simon-Stenholm Balanced Budget Amendment to the Constitution, which is likely to come before the Congress in November. It would:

- Require that the budget be balanced each year, beginning either in FY 1999 or two years after ratification by three-fourths of the States;
- Require a 60 percent roll-call vote of the full Membership (as opposed to those present and voting) of both Houses, to allow a budget deficit or any increase in the National debt limit;
- Allow a revenue increase only through a majority roll-call vote of the full Membership of both Houses; and
- Permit a majority vote waiver during military conflict.

B. **ARGUMENTS IN FAVOR**

1. ***Need for Discipline of Budget Balance:*** Some argue that budget balance is the right target from an economic standpoint. But even others who see nothing sacred about a deficit of precisely zero believe that there is no real discipline without some precise target, and believe that zero is the number with the most appeal.

2. ***Forces Tough Choices:*** Even though a Balanced Budget does not itself call for making the tough choices, it serves as a self-imposed club that will force Congress into a context where they will have no choice but to make tough choices.
Some argue that the Constitution, more than any law, would motivate the Congress to make the difficult choices necessary to balance the budget. The difficulty of enactment of the FY 1994 Reconciliation Act, which did not take the budget all the way to balance, is cited as evidence.

3. ***Maintain Anti-Deficit Image:*** Your opposition to an Amendment that carries a popular message could cloud your reputation for deficit reduction. Some may see opposition to a Constitutional Amendment as a retreat from your earlier deficit reduction effort. This point may be stressed by active deficit reduction spokespersons and groups.

4. *The Horse is Out of the Barn:* Some believe that the Amendment is already unstoppable, and that there is no point in expending political capital against it, especially if it may detract from the public gains you made by passing the largest deficit reduction package of all time.

C. ARGUMENTS AGAINST

1. *Exaggerates Economic Cycles:* When the economy is weak, the deficit goes up, tax revenues fall (because incomes are lower), and spending rises (for unemployment compensation, welfare -- even Social Security for laid-off older workers who cannot find new jobs and so retire early). These are the "automatic stabilizers" that have been credited as preventing the nation from ever falling again into a serious depression. The amendment language calling for "total outlays for any fiscal year not to exceed total receipts for that fiscal year" reflects a legislative intent to have balance during each year, and not just a five-year balanced budget plan. This means that implementing legislation would require constant adjustments to keep the budget in balance.

   Although the draft Amendment allows a 60 percent roll-call-vote waiver, it is not likely that Congress will feel compelled to break their constitutional obligation without strong proof that the economy is already in decline. Members of Congress could posture as being tough against the rising deficit and make things worse. Furthermore, we typically realize that the economy is turning down only after the fact; by that time, we may already have made things worse by trying to comply with a balanced budget requirement.

   Balancing the annual budget means freezing the national debt at its current level in absolute terms, not simply reducing it relative to GDP. That's an odd goal in an economy which is getting bigger and bigger in dollar terms year after year. Consumer debt, business debt, mortgage debt, etc. all grow over time in a growing economy. Why should government debt be different? Twenty-five years ago, the national debt held by private investors was \$150 billion, which was about 18% of GDP. If we still had that much debt outstanding, it would be just 2.4% of GDP. We might well want the debt-to-GDP ratio to fall, rather than remain constant at its current level. But that does not require a balanced budget.

2. *Reducing Two Deficits:* This proposal would nearly eliminate any chance of any meaningful additional investments over the next several years. The Simon-Stenholm Balanced Budget Amendment calls for a balanced budget in the later of two years after the passage of the bill or FY1999. With our current economic plan, we would need an additional \$223 billion in deficit reduction in that one year alone. It would not seem politically or economically tenable to simply follow our current path to FY1998, and then look for a whole set of new policies that lower the deficit by \$223 billion in FY1999 alone. The implementing legislation required under the Amendment would almost certainly require the President to come forth with a substantial amount of new

deficit reduction on top of our current plan, in the order of $500–$700 billion more between FY1995 and FY1999. Any notion that passing the Simon Balanced Budget Amendment would take us off the hook for several years would seem unlikely. In a scenario in which the Administration and Congress would be under severe pressure to cut Social Security and Medicare benefits for the middle class and raise middle class taxes, the chances of channeling savings to new investments, would be severely impaired.

Furthermore, this would put the Administration in a position where the President is compelled to put forth Social Security cuts and middle-class tax increases, and Congress has the option to reject them with a 60% vote.

An example of a plan to get this degree of deficit reduction is the recent Concord Coalition proposal. They ask for only $10 billion in new investments, while calling for a 50 cent gas tax, an additional $20 billion per year in sin taxes, means testing of all entitlement programs including Social Security and Medicare (affecting 42% of Americans who receive those benefits), an increase in the Social Security Retirement age, and major reductions in overall Medicare benefits. Yet, these savings do not assume the passage of our health care plan. If these amounts of savings had to be found on top of health care, even tougher measures would have to be passed.

3. ***Commitment to Health Care:*** Since large middle-class taxes will be highly unpopular as a means to balance the budget, there will be an effort to get everything possible out of entitlement savings. This will make health care quite vulnerable in two ways. One, with the passage of a balanced budget amendment, it will be difficult to re-allocate $238 billion in Medicare and Medicaid savings to health care, and two, if most entitlement savings are dedicated to the balanced budget amendment, it will be highly difficult to add new entitlements such as prescription drugs and long-term care in the foreseeable future.

4. ***No Distinction Between Investment and Consumption:*** A $1 of reduction in excessive health care spending is treated exactly the same as a $1 reduction in the best investment in technology, defense conversion or Head Start. When cuts have to be made, in fact, we know that it is far easier to cut new programs that have not been implemented -- and thus have no established constituency -- than to cut existing programs where there are jobs, expectations and entrenched political interests that will protect the status quo.

5. ***Gimmicks Cannot Replace Leadership:*** A Constitutional Amendment has always been viewed as a "gimmick" to allow leaders to hide from the tough choices that must be made to reduce the deficit. Presidents who had to face deficits in the past (Jackson, Wilson, Truman, etc.) did not have a Constitutional Amendment to do what was right.

6. *A Proposal to Have Budget Policies That Were Fair To The Middle Class:* There is no conceivable proposal to balance the budget by FY1999 without serious cuts in Social Security, Medicare and middle-class tax increases, as well as cut-backs on plans to help those who are most disadvantaged.

7. *Degrades the Constitution:* The Constitution defines the rights of citizens and the role of government. It does not dictate economic policy. To so use the Constitution would throw difficult issues into the Federal courts. Several noted conservative jurists see this danger; former Judge Robert Bork has called such an Amendment "a vain hope or a dismal prospect."

8. *Minority Rule:* The supermajority requirements in the Amendment would allow a politically motivated or economically unsophisticated minority (perhaps a united minority party?) to prevent any President from moving his economic program.

IV: RECOMMENDATION:

1. Policy Decision: The NEC unanimously and decisively opposes the Simon Balanced Budget Amendment for the reasons mentioned above. Your policy advisers, such as George Stephanopoulos and others, also concurred in these judgments. David Gergen stated that he had supported a balanced budget amendment prior to taking his current position. He feels it has merit as a tool to force Congress to make tough choices that they have been unwilling to make. David did not recommend, however, that you support this balanced budget amendment now, in light of the severe choices that would have to be made to achieve the balance.
The NEC also believes however, that your opposition must stress your demonstrated accomplishment on deficit reduction, your ironclad commitment to maintaining your present deficit reduction package, and importance of slowing the costs of health care in ultimate deficit control. Bill Galston, Leon Panetta and others stressed the need to also effectively communicate your commitment to policies to bring down the deficit beyond our current five-year plan.

2. Political Decisions: If you concur in the decision to oppose the balanced budget amendment, there are remaining decisions that have to be made.

> **Intensity of Opposition:** There was some political concern that an active fight against the balanced budget amendment will create a false impression that you are not intense in your efforts to control the deficit. Others felt that it was better politically for you to make a principled fight against the amendment, than to risk alienating all sides by passive opposition. In any case, Senator Simon appears so close to the necessary two-thirds majority, and passage would have such onerous effects, that the NEC and most of your in-house political advisers strongly recommend that you wage a strong fight to defeat the bill in the Senate.

Message and Strategy: The main decision seems to be what our message and strategy should be for opposing the amendment. Some argued that this could be used as a vehicle to re-state your overall vision on the need to address both the budget and investment deficits to create economic growth. Your political advisers seemed to believe that this might not be the best context for talking about the economic virtues of public investment. Most (including George S. and David G.) seemed to believe that the best strategy would be to stress your opposition based on the negative policies to the middle class that would have to be taken in order to balance the budget by FY1999, and challenge people to show you how they would specifically achieve this balance without such unpopular policies. For example, you could state that you oppose this balanced budget because it would devastate health care, require large increases in middle-class taxes and significant cuts in Social Security benefits, and that you challenge anyone to show you differently.

Alternatives: Another issue to be considered is what other budget discipline alternatives are there that would give members of Congress something to vote for if they were going to oppose the balanced budget plan. Options could include some form of capital balanced budget, macroeconomic sensitive entitlement cap, or enhanced rescission. The first two might be too complicated, politically and substantively, to construct at this point, and you need to consult with your Congressional advisors about the viability of the third option.

II. BIPARTISAN COMMISSION ON BUDGET SAVINGS

The majority of the NEC and your in-house political advisers believe there are possible risks from such a Commission. Therefore, we believe we should carefully consider what structural elements might best minimize these risks and preserve Presidential flexibility to the greatest degree possible.

A. Discussions Held with Congressional Leadership

Extensive discussions have been held with Majority Leader Mitchell, Speaker Foley, Majority Leader Gephardt and Minority Leader Michel, as well as Pete Domenici, Bob Kerrey, John Danforth and others on the possibility of a bipartisan commission on budget savings. The general consensus of many of these members of Congress is that such an effort could be helpful in focusing on the issues related to additional savings in entitlement programs. We also need to consider how much such a Commission's mandate should review tax and revenue issues, if at all.

Attached is a brief description of a proposed Bipartisan Commission on Budget Savings (Attachment #1).

B. Issues Related to Commission

Discussions have been held about the Commission with a number of senior White House staff members. Those discussions have identified a number of key issues related to the Commission, regarding minimizing risk and preserving the Administration's flexibility, including:

(1) the role of the Administration -- how closely should the Administration be identified with the Commission? Some key questions:

-- Should members of the Administration be appointed to the Commission?

-- Should the Commission report to the President or to the NEC or to some other Administration group appointed by you, which could serve as a forum for review before transmission to the President?

(2) impact on 1995 Budget -- Senator Kerrey has supported a December 1, 1993 reporting date for the Commission, so that the Commission's report could be considered in the 1995 Budget. Such a report would come late in the process. Moreover, we can't know at this time if we would want to include its recommendations. Key question:

-- Should the Commission's report be available in time to consider including it in the 1995 Budget, or should it report after the Budget and/or after the budget resolution?

(3) role of Congressional leadership -- Senator Mitchell has expressed interest in serving on the Commission, while Speaker Foley seems somewhat reluctant to serve. Key question:

-- Do you want to have the Congressional leadership on the Commission to enhance control of the Commission, recognizing that this might make the Commission's work even more difficult to reject than it would otherwise be?

(4) majority vote or supermajority vote -- Senator Kerrey supports a requirement for a majority vote for Commission recommendations. However, this would make it easier for Republicans to stonewall and avoid responsibility for any decisions by the Commission. A supermajority requirement would ensure that recommendations had broad political support, but would also increase the possibility that the Commission would deadlock or revert to simple solutions, such as caps. Key question:

-- Should the Commission be required to have a supermajority to make recommendations, or is a simple majority sufficient?

(5) type of recommendations -- some concern has been expressed that the Commission would push for entitlement caps, rather than specific programmatic policy changes. Key question:

-- Should the Commission be required to make specific recommendations on a programmatic basis?

(6) taxes -- Senator Kerrey and Senator Danforth believe the Commission should look at taxes along with entitlement and mandatory programs. Key questions:

-- Do you agree that the charter of the Commission should include tax issues?

-- If so, should the Commission be required to consider the impact on progressivity of any tax recommendations?

C. Bringing the Issue to Closure Within the Next Two Weeks

1. Meet with Democratic Leadership

In appropriate meetings with Majority Leader Mitchell, Speaker Foley and Majority Leader Gephardt, we should discuss establishing such a commission, the political and legislative risks associated with such an effort, and how to control those risks. You might not want to be at those meetings yourself, unless needed at the end.

III. ELEMENTS OF OCTOBER PACKAGE FROM NPR

As you know, the Administration is planning to send to the Congress a package of deficit reduction proposals later this month. This package, which we hope will total at least $9 to $12 billion over five years, plus procurement reform estimated to be scoreable between $2.0 to $5.0 billion, will consist of ideas generated by Vice President Gore's National Performance Review and by rescissions of FY 1994 appropriations bills. The Vice President, the National Economic Council, and your in-house political advisers have had preliminary discussions about the NPR savings options, and have reached a unanimous recommendation except for one item mentioned below. The results of those discussions are presented here.

1. Procurement and Personnel Reform

Discussions are currently underway between the Administration and the House and Senate Government Affairs Committees on a procurement package to be introduced in the next few weeks. We will be asking the Congressional Budget Office to score the package once final agreement is reached.

The Administration has sent to the Congress a "buyout" proposal (this will also be included in the October package) offering Voluntary Separation Incentive Payments of as much as $25,000 to selected workers who leave government service. In the House the bill has been introduced as H.R. 3218. Hearings on the bill in the House have been scheduled, and it is our hope that the measure will pass the Congress before adjournment.

2. Rescissions

OMB has begun the process of identifying potential rescission items for inclusion in the October package and we will need to discuss these with you within the next ten days.

3. Savings

Together with the Vice President, the NEC and your in-house political advisers have reviewed the NPR and identified almost forty proposals based on good public policy which we believe should be presented to the Congress. Below, under section A are examples of several items which were included without much disagreement or discussion, which would total approximately $7 billion over five-years.

Under Section B, are a number of additional NPR proposals which are more controversial and problematic, of which you need to be aware and which should be discussed with the leadership. While there is a unanimous recommendation on all of these issues (except the highway demonstration projects), we want to make sure you are fully apprised of the arguments for and against each policy choice so that you feel comfortable with each decision.

A. <u>Examples of Less-Controversial Items Recommended for the October Package:</u>

- ending the wool and mohair programs
- eliminating Federal support for the honey program
- reorganizing the Department of Agriculture
- streamlining HUD operations
- increasing Department of Justice debt collection
- closing VA supply depots
- selling the Alaska Power Administration
- reforming the Federal Helium program
- streamlining the VA benefits claims process
- allowing HCFA contracting out

While some of the proposals in the Base Package will be opposed by some members of Congress, we believe they are defensible, and we recommend that they be included in the October package.

B. <u>Recommendations for Your Special Attention:</u>

• **Reduce Essential Air Service Subsidies**: This proposal would prohibit subsidies to airports in small communities which are within 70 miles of hub airports; 28 airports would lose subsidies. The House and Senate have already endorsed cuts in this program, and we believe it would be appropriate for the Administration to propose this relatively modest change.

• **Streamline Army Corps of Engineers**: Secretary Aspin is currently reviewing an Army Corps of Engineers streamlining plan proposed by the Bush Administration. Any such plan would be highly controversial with members of Congress who would lose Corps offices or headquarters in their districts. Rather than submit a specific plan in the October package, we could propose legislation directing the Corps to develop and implement a plan which would achieve a set amount of savings.

• **Power Marketing**: This proposal would require the Bonneville Power Administration based in the state of Washington to buy out its debt to the Federal government. Any debt buy-out proposal is likely to result in increased rates for consumers in the Northwest, and will be strongly opposed in the Congress. We are continuing to explore ways of achieving scoreable savings in this program without raising rates.

• **Social Security Disability Claims**: This proposal requires intensive review of disability claims by the Social Security Administration with the goal of removing beneficiaries from the rolls who are no longer disabled. While there is clearly fraud and abuse in the Social Security Disability rolls, it is a controversial proposal because the Reagan Administration did this in a crude fashion that was seen as leading to publicized stories of unjust removal of truly disabled people. We recommend exploring ways of increasing the review of beneficiaries without adopting the full NPR proposal. This would require new funding and personnel.

• **Highway Demonstration Projects**: The NPR proposed eliminating all highway demonstration projects. There is not a consensus in the NEC on this issue. Some of your advisors propose that we cut the number of projects cut by targeting those which have been appropriated without being authorized. This would still allow for $600 million in deficit reduction. Yet, even this more limited cut is seen as inadvisable by some of your in-house political advisers.
This is a matter we need to discuss.

4. House and Senate Procedure

In the House of Representatives the October package will be distributed to the appropriate committees. After committee consideration, the various elements will be packaged by the Rules Committee for a vote on the House floor. In the Senate, one committee – the committee with the preponderance of the legislation under its jurisdiction – will be asked to consider the package. Issues not in this lead committee's jurisdiction will be considered as amendments to the bill reported by the lead committee once that measure reaches the Senate floor. It is hoped that the October package will pass the Congress before adjournment.

5. Distribution of Savings

We are looking at proposing an October package that would total $13–15 billion, assuming that approximately $3 billion is scored for procurement. At the close of the last meeting of the Vice President and the NEC, there was a tentative agreement that:

1) a $13.5 billion package be proposed, in which $10 billion would be for deficit reduction and $3.5 billion in discretionary spending savings would be for funding the crime package, so that the NPR savings would ensure that this initiative was funded under the tight caps, and

2) that we would insist on preserving the $3.5 billion for crime, even if items in the deficit reduction package were stricken.

November 29, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: 1995 BUDGET

As you consider the major choices for the 1995 budget, Bob Rubin thought it would be helpful to flag for you some of the major political and economic considerations relevant to your major investment choices. Certainly, our goal must be to cut lower priority spending to make room for higher priority investments. Yet, it will be inevitable that at some point, we will be choosing among a range of programs that we will consider important, and one thing we must consider is what is our strategy or approach for choosing among priorities. Below, I mention four approaches:

I. INVESTMENT APPROACHES

1. **SHAVE TOP INVESTMENTS:** One of the most logical methods to deal with the tight caps, is to moderate the degree of increases in your top investment. The advantage of this method, is that you are still keeping increases in your major areas, and are just moderating those increases in light of tough budgetary constraints. The disadvantage of this perspective is that it decreases the chances of making major differences in the areas you have identified as your top priorities.

2. **MAKE A TOP 10-15 INVESTMENTS YOUR MAJOR PRIORITY:** Under this perspective you would pick out a top list of investments, decide the amounts that you felt are needed to make these investments successful, and then ask your staff to simply make the budget fit with those increases built in. We did this in the 1994 budget, when you would exclude four or five items, while asking for another shave of the budget. The advantage here is that you do not allow your top investments to be diluted, and preserve key signature pieces for the Administration. The disadvantage is that other members of Congress may be upset to see some items getting such large increases while their issues are getting no increase. Also, it is likely that picking a top 10-or 15 investments will mean no increase for many other areas that you would still consider to be priorities.

3. **FULLY-FUND INVESTMENTS WHERE THE AMOUNTS ARE SMALL:** A sub-component of the above method is to consider bang-for-the-buck calculus in terms of fulfilling investment objectives. There are some areas where the amount we need to find concerns several hundreds of millions or even billions per year. Yet, there are other areas where the difference between fulfilling an investment objective is a matter of tens of millions. Under this perspective, since we will not be able to achieve all of our investment objectives,

we should consider strongly those areas where we can achieve 100% success for a small amount.

4. **HEALTH CARE:** One perspective is to make choices based on how they affect the chances for passage of health care. The advantage of this is that we keep focused and do not let side-issues stand in the way of the coalition we need to pass health care reform. On the other side, the implications of this logic could be sweeping. Indeed, the logic there might be to not fund most of our major investments since such strong funding will require serious cuts that will each have a negative effect on some members.

II. RECOMMENDATION - STRATEGY FOR STRONG SUCCESS IN 15-20 KEY ITEMS: While this memo seeks to raise issues more than answer them, I want to make one general recommendation for approach. I believe that you would be wise to pick a certain amount of areas where we want to hit home runs, and force the rest of the budget to live within those constraints. Ideally, the extra funds would come from spending cuts in non-priority areas. Yet, if necessary we should be willing to do less in our second order priorities to make sure we have clear successes in top priority areas.

In looking at the OMB recommendations, there appears to be full funding for several major investments: 1) WIC; 2) School-to-Work; 3) Goals 2000, 4) 100,000 cops (assuming passage of the Crime bill); 5) One-Stop Shopping Labor. Furthermore, we have near full funding of 6) EITC and 7) Empowerment Zones through the 1993 Budget Act.

The amount of new investments above the OMB mark to bring other investments up to a full-funding -- for another 8 major investments is not an exceptional amount. For example:

8. *Alternative Fuel Vehicles*: This is somewhat of a signature piece that could be significantly expanded for $15 million more.

9. *Ryan White*: The OMB mark is $672 million, which is $93 million above the $579 million enacted in FY1994. For $50 million more, we will be at the full-funding level. As this is both a humane investment and one with a strong constituency, the extra $50 million for full-funding would be worthwhile for us to find. It is another case, where the price for complete fulfillment of campaign pledges is not high.

10. *National Information Highways*: The Commerce request was for $150 million; The OMB mark is for $78 million. Clearly, $50-60 million more could make a large difference in the progress of a signature piece. (rationale discussed below)

11. *Dislocated Worker*: On the discretionary side, Labor asks for $300 million more than the OMB mark to get up to the amount they need. (rationale discussed below)

12. *Community Development Banks*: There is $100 million in the OMB budget for this, which is adequate. Yet, for an additional $100 million we could make a major difference in considerably more communities. Our review so far shows this piece could be very popular and successful.

13. *Head Start*: For reasons given below, we may need to come forth with a $1 billion increase, which requires $376 million above the OMB pad mark.

14. *NIST*: We would be near full funding with $200–$400 million more. (discussed below)

15. *National Service*: Eli wants to go from $575 to $862, while the OMB mark is $715. Thus, $137 million separates OMB from National Service's request

16. *Technology Reinvestment Program*: $400 million more, above the OMB recommendation would mean a major increase.

Clearly, there are other demands on the budget besides these additional nine items. HUD, for example, has serious needs in important areas such as homelessness. Yet; if the Defense Department can include in their budget the $400 million more needed for ARPA, we could have 15 major investments at near full–funding for $1.3 billion more in key investments.

Alt Fuel Vehicles	15
Ryan White	50
Info Highways	78
Dislocated Worker	235
CDB	100
Head Start	376
NIST	300
National Service	140
	$1.3 billion

It is worth seeing for illustrative purposes that much of this could be paid for just by decreasing other investment areas, that while important, may not be as high priority as these investments. For example, the investments below represent increases in our budget of $2.8 billion.

Federal Crop Insurance:	300
Rural Development Initiative	130
Food Safety	22
Census	35

Chapter 1	655
Education Research & Stats	73
Elementary and Secondary Teacher training	151
Conservation R&D	200
Jobs Corp	143
Salaries and Expenses	103
Transit Formula Capital Grants	392
VA Medical Care	260
Mission to Planet Earth	314
	$2.8 billion

Clearly, many of these are important, and should perhaps be on the top list. But I mention this for the purpose of showing what is doable if we are able to prioritize among our priorities.

III. EXPLORING OTHER WAYS OF CUTTING:

1. **Penny-Kasich Legislation**: We should do a review of the Penny-Kasich cuts and consider them in light of the fact that it receive 213 votes. Many of these cuts we may not like, but if there are 213 members on the record for them, and we may want to reconsider them in light of the fact that they could help fund some of our key investment initiatives. Furthermore, it would reinforce our message that we needed many of the spending cuts just to hit our existing caps.

2. **Entitlements and Tax Expenditures**: Two of our main investments, welfare reform and worker training require significant funding on the PAYGO side of the budget. Clearly, from a purely policy view, the tax expenditure side of the budget has significant inequities in terms of progressivity. The overwhelming political instinct will be not to open up the tax side at all, yet it seems right for us to at least explore some options and consider whether there is any political logic in being able to tie some tax expenditure cuts to worker training or welfare reform. The other place is clearly means testing entitlements. Again, we should see if there is a political logic that would allow for some coalition that would make something viable. Finally, the Republicans will be looking for entitlement cuts that call for draconian cuts for immigrants. We need to figure out what is legitimate and expose what crosses the line.

IV: OVERALL PRESENTATION ISSUES:

1. **Listing Spending Cuts**: We should consider how to bunch together or list all of the areas where we are calling for spending cuts to meet our deficit targets. The pro side here, is that we would make sure that we do not bury our spending cuts, by at least presenting them together. The down side, is that if there is $50 billion in spending cuts, we may not be able to control the message that these cuts are needed to meet existing targets, and the highlighting of cuts may lead to more pressure to reduce the caps.

2. Major and Visible Cuts: One of the main problems we had in the budget debate, was that we did not get attacked enough on spending cuts. If we wish to address this, we need to present some highly visible and bold spending cuts, and relish the fight against them even if we lost. Some will say, however, that such fights will hurt our relationships needed for the passage of health care and other major initiatives.

3. Tying Investments: If we want to stress the notion that we are doing good things without making taxpayers pay one extra cent, we may want to tie specific cuts to investments. It is also a way of focusing on the very economic and value choices we want to highlight. Furthermore, if the technology community sees cutting a pork project as their ticket to NIST increases, we may be able to get more support for the cut in question. Furthermore, it can allow us to present things to the public in very favorable way as to the trade-offs we are calling for, while highlighting that we are stressing tough cuts to pay for new investments. The other major issue is whether there are any specific ways to do this legislatively, or whether this is purely a matter or presentation.

4. Balanced Budget: We must prepare and present this budget in a way that makes the public understand how tight discretionary spending is and the contradictions between those who support the balanced budget and yet will yell at us for not funding more of Program A. We must have a simple message. We can only do the programs members of Congress care about if they fight for them, and that if they are also calling for a balanced budget amendment, we will assume that they are in favor of doing less for the programs they care for.

V: MAJOR ISSUES AREAS:

1. Human Resources: In the FY1994 budget, we had great victories in the EITC, reforming student loans, and achieving significant funding for worker training, WIC, and Ryan White were near our full-funding request. But there is no hiding that on the discretionary side, our success in some of the most key investments were sub-par. Indeed, our high percentage of priority investments in FY1994 was due a lot to a significant percentage of our mass transit and highway funds. Both the New York Times and the Washington Post have reported that we only achieved 1/3 of our key education investments. School to work received 50 of the $135 requested. Goals 2000 received 105 of $450 requested.Drug-free schools did not have an increase, Worker training got half of what was requested, and Head Start received $550 Budget authority of 1.3 billion requested.

MAJOR ISSUES IN HUMAN RESOURCES:

> **602 (b)**: We must remember that our human resource investments strategy, but it will mean next to nothing unless we have a strategy for ensuring that the 602(b) appropriations allocation is large enough to handle our increases. Once that amount is set, any increase in Head Start competes directly with worker training or Goals 2000.

We need to take this into account as we are preparing the budget and we need a serious legislative strategy for increasing the Labor-HHS 602(b) appropriation.

This means that we must make sure we are fully on top of how the health care budget intersects with the rest of our priorities. If our public health care investments come in as discretionary spending, and fall under not only the discretionary caps but the Labor-HHS 602(b) appropriations allocation, we will face a severe hit on the rest of our human resource investment. Ensuring that those health care spending are set us as capped entitlements -- or in some way as not coming under the discretionary caps -- must be a major issue.

HEAD START:

• **Where We Are:** By far our major FY1995 human resource issue on the investment side is Head Start. In FY1994, we hit only 35% of our Head Start request, and were under the $600 million increase that Bush called for in his last budget. That of course is unfair to us as this was his only strong year for Head Start. The amount in Vision of Change for FY 1995 was $1.8 billion. We have virtually no chance of hitting that amount, and with only a $550 million increase from last year, few would expect us to still ramp up that fast. Despite that, I believe there are problems with the $624 million increase that the OMB budget recommends. It is still a major increase, but it is far below our schedule and fails to get well over the $600 million hurdle--which is an imperative.

• **Realistic Goal:** What may be most important to CDF and others is that we keep our commitment to full-funding, even if it is a more phased- in schedule. If we could aim for closer to the $1 billion that HHS calls for, make a full-funding commitment, and insist that a precondition for increases are quality reforms, we could be in good shape. Yet, finding another $350 million in this budget is a major task.

• **Broader Coalition:** We need to get a political strategy for this. We need to work to get Republicans who call for Head Start increases in their rhetoric. We also need to get business leaders who support such increases to form a business for children coalition to help raise the profile of these investments and give them a business and economic validation. I believe that the Head Start advocates will be successful in somewhat rehabilitating Head Start from the criticisms from last year.

WORKER TRAINING AND LABOR:

• **Dislocated Workers:** In terms of FY1994, we got $600 million of the $1.4 billion we requested. For FY1995, the OMB budget allows for only a $47 million increase, while Labor is looking for $270 million more for the first year of the dislocated worker program. Yet, even this rests on the assumption that we can find an entitlement source to pay for an additional $1 billion a year on the PAYGO side. Therefore, strong funding for the first year of the dislocated worker training program would require an additional $300 million for worker training.

• **Other Key Investments:** With this increase, we would have a strong labor investment agenda for FY1995 on the discretionary side. School-to-Work is on line for the $300 million needed for FY1995, and the OMB mark for one-stop shopping is the is the same as the $250 million that labor is requesting. Labor wants an additional $255 million for Jobs Corp, while OMB has less, but still an $143 million increase.

• **OSHA:** Another major issue is that labor will want over $100 million more for OSHA funding. The key here is that we must consider this in the context of our overall labor agenda. The more we are able to deliver on the non-budget side of their agenda (striker replacement) the less this will stand out. Yet, if other legislative areas are not doing well, this OSHA funding could be politically important.

NATIONAL SERVICE: The National Service Initiative has $575 million for FY1994. Eli has asked for $862 -- an $287 million increase. OMB calls for $715. Even with the full increase, there will be some who say that we have not lived up to the vision on the campaign. Yet, if we are making good progress and if the perception is that National Service got its full request, it would help. This is one our most visible investments. We should find the extra $140 million.

INCOME CONTINGENT LOANS: We will not be doing enough for Pell Grants to make this a major investment item. We need to have a strategy for reviving the notion of universal EXCEL Accounts that allow us to show that we are offering every student new options. This means giving this initiative more lift and more promotion.

2. INFRASTRUCTURE:

• **ISTEA:** In the budget presented by OMB, there is no question that the major area of controversy is that there is $2 billion less for ISTEA. Alone, this cut in politically untenable. Yet, it is a far closer call in the context of the overall budget. Finding this $2 billion in the rest of the budget would be very difficult. As the cuts are in demonstration projects, those most upset would be members of Congress and mayors. If we do this, we would have to be careful about our other investments that are critical to Mayors. It will certainly hurt us with many of the infrastructure groups that are part of our base. Yet, the real political issue, however, is Congressional. There is a constant call by the budget cutters to cut highway demonstration projects, yet there is still no proof that Congress can stomach this. There is also a serious political issue in that the highway trust funds will be seen as going up at the same time that highway authorizations are going down and airport assistance is being transformed from loans to grants.

• **Transit Grants:** There is some good news in the initial OMB presentation. Capital transit formula grants that took a major increase in FY1994, would go up another $392 million in FY1995. Yet, there is a call for phasing out operating subsidies that tend to hit smaller more rural communities.

• **Environmental Infrastructure:** On the environmental infrastructure side, the OMB budget increases the Clean Water State Revolving Funds by $360 million and the Drinking Water State Revolving Funds by $101 million, which would put us over $300 million above the last Bush budget in this area.

• **High Tech Infrastructure**: The OMB budget has no funding for high speed rail or MagLev. Our danger here is that these investments represent your commitment to a futuristic, year 2000 infrastructure. There may be good policy reasons for not funding the high speed rail, but if this is the case, we must ensure that we have strong commitment to information highways as an investment for the future. Therefore, if high speed rail is out, we need to make sure there is serious funding and promotion of the information highway as well as any advance in smart highways. We can then talk about a movement to environmental infrastructure, information highways, and mass transit as representing a shift to new priorities in infrastructure. The cuts in highway must be seen as cuts in pork; we must distinguish between good spending and bad spending in a period of

3. **COMMUNITY DEVELOPMENT:**

• **New Initiatives:** On one hand, this is an area where we can claim much success in terms of putting new initiatives and where our future success can be determined largely by our efforts in promoting our new ideas. We have passed Empowerment Zones, and our close to success at CRA reform and Community Development Banks. This hat-trick tells a nice story of economic empowerment and the success of new ideas. Much of the future success may be determined on how much time we spend promoting the ideas, and getting businesses and major corporations excited about helping to make this a success.

• **Highlight Community Development Banks:** CDBs is an area where we are looking to spend $100 million, yet where $100 million more could make a major impact on the success and expansion of a new trademark initiative at a low cost.

• **Gaps in Base Hud Programs:** The negative reality of this part of the budget is the philosophical and political one that Secretary Cisneros points out. At a philosophical level, much of what HUD seeks to spend on is for the poorest Americans, and they are trying to build back after a decade of severe retrenchment and waste. Yet, addressing this in dollar terms is next to impossible with the current caps. On the political side, it is the Mayors who will largely determine how your urban initiatives are judged, and they are unlikely to help with much if we are cutting the programs that we they see as their lifeblood -- mainly CDBG as well as HOME.

• **Two-Prong Approach:** It seems to me, that we need a two-prong strategy here. The first prong is to ensure that we do what is needed to make sure your most innovative and visible investments are well-funded. That means we should not skimp on Community Development Banks or Empowerment Zones. HUD wants extra money for Empowerment Zones so that there will be tangible construction in them in the first couple of years, which is an idea worth considering since it will be difficult to spend the Title XX money that way. The second prong is to try our best to find some additional funds for HUD -- though not nearly as much as Secretary Cisneros and all of us would like -- and see what is the best package we can put together that will fly with the cities. Here we may want to look beyond HUD to Ryan White and mass transit, and do a "cities cross-cut" to see what our who story is. My general feeling is that we are going to have to try to preserve the $4.4 billion in CDBG, and that we should try to do more on the homeless initiative and help for distressed housing, while accepting OMB's severe cut in public housing construction. Despite the major cuts in public housing construction in the 1980s, there does not seem to be enough confidence that we know how to spend this money, and without a major hit somewhere there is no hope of doing any of the new stuff that Secretary Cisneros wants. The other thing we should do is try to give the Secretary funding for his new ideas within the Empowerment Zones as a way of keeping costs down in FY1995 and ensuring that we have enough discretionary funds for economic development to make the empowerment zones work.

4. **AIDS:** As mentioned above, we should at a minimum fully-fund the Ryan White Act.

5. **DEFENSE CONVERSION**: Clearly an areas where we want to be strong is on defense conversion. We can make major strides for reasonable amounts of funds, and we should find a way to do so. Overall, there are many programs that are included in our defense conversion initiative, including our technology programs and programs taking place in the defense department to help base closures and provide severance pay for military personnel. Yet, there are four programs that will be our most visible and will be most clearly understood as defense conversion initiatives by the Administration. One is the Office of Economic Adjustment in Defense, which received $39 million in funding in FY1994 and is scheduled to get the same in FY1995. A second is the Economic Development Administration in Commerce, which got $80 million in FY1994 and is scheduled to get the same in FY1995. The third is the Technology Reinvestment Project, which got $474 million in FY1994 and is

scheduled to get $575 million in FY1995 (despite the fact that Defense amazingly asked for only $325 million). The fourth will be our worker training program.

- **Full-Funding The Three Most Identifiable Defense Conversion Programs:** If we look at the first three, major funding increases for the Office of Economic Adjustment would be a doubling of their funds to $80 million and an increase in the EDA to $100 million. Thus, in these two programs we could be seen as having a far larger presence in helping communities for $60 million more in one of your top priority areas. As to TRP, this program is a tremendous success, highly visible to communities, and perfectly reflects economic conversion. Dellums and Schroeder will clearly ask for more than we do -- probably $1 billion. While I know that defense is squeezed, they make up half of the entire discretionary budget. If they were to fund OEA at $80 million and the TRP at $1 billion we would be asking them to absorb only $465 million more in their budget, while allowing us to be seen as making a major increase in defense conversion, instead of letting others take the lead. It would allow us a visible new increase to demonstrate to members of the California delegation what is at risk with the balanced budget.

6. **TECHNOLOGY**: In addition to TRP and information highways, it seems clear that increases in NIST and NSF represent what most of our people and advisors like John Young believe is the right spending. Commerce asks for $1 billion for NIST, a highly successful part of the government, which funds many of our top priorities such as the Advanced Technology Project and Manufacturing Extension. The OMB mark is $690 million. National Science Foundation wants an increase from $2.9 billion to $3.67 billion, while we increase only to $3.20 billion. It seems that here is a place where we should highlight these two areas and look through the NASA and Energy budget -- as well as the rest of the Commerce budget -- and ask whether other science projects really are worth as much as these.